

The Method of the Money Making Mechanism of TikTok

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ABSTRACT

This paper investigated how TikTok, a short-video platform, can make money based on the perspective of economy and marketing. It has developed rapidly since 2016, and still impacts the market trend by its unique characters. The 4P strategy is used to analyze each product in the video application, and why it is able to attract a great number of users. There is also extended research on the profit of TikTok based on its annual report. There is a strong relationship between statistical data and its success. There are mainly some popular ways for both the platform and video-makers to earn profits. The success of TikTok is analyzed, and it can be used in other business of field, which is the main purpose of the paper. TikTok is a good role model for other social media and companies which can make use of social media. The result of this research is that TikTok successfully adapt users' new interests and expand its consumers during COVID-19.

Keywords: *TikTok, videos, business, economic profit, 4P strategy*

1. INTRODUCTION

In the past few years, with the development and maturity of the Internet, the frequency of people using social media has increased dramatically. Many websites or applications have also launched many interesting features, attracting more customers. For example, many special effects of ins and TikTok attract countless fans. While people are happily using social media, most people do not spend money, but social media earns a lot of money. The success of Internet entrepreneurs has also directly led to more intense competition in social media and a better experience for users. Especially during the Covid-19 pandemic, when people stayed at home, the number of users of social media has skyrocketed. Many businesses have seized this opportunity, cooperated with social media, and made a lot of profits from it. This kind of successful cooperation and win-win has promoted the new model of the Internet; different social media also use different methods to operate. This paper will focus on analyzing the operating model of TikTok and its comparison with other mainstream social media. The download volume of TikTok has skyrocketed from 130 million in 2017 to 2.6 billion in 2020, which does not include users in China and other regions (more than 600 million). A large number of downloads and users have contributed 1.9 billion in revenue in 2020, an increase of

nearly 5.5 times compared to 2019. It was they who successfully took advantage of the home isolation period of the COVID-19 epidemic, which made the funds and income of many other industries transferred to them.

In general, this paper basically analyzes the data of TikTok, and compare it with other popular media such as Facebook. The characteristics of TikTok attract the crowd to further analyze its business model. Through the comparison of data and the changes in recent years, the development trend and the advantages and disadvantages of other media are summarized.

2. INTRODUCTION TO TIKTOK

2.1 characteristics and attributes of TikTok

The unique characteristics and attributes are an important component to success. It created a new style of social media and was widely recognized by people.

2.1.1 Short videos

Contrary to YouTube, the videos in Tik-Tok are usually short, about 15 seconds[1]. It is a product of the fast-food era: when people do not have too much patience to do deep thinking, interesting and short content is more easily accepted by people. In an age where there are so

many fragmented times, reading books and long videos cannot relieve people's stress, but will make them more tired because of the thinking after exhaustion. People do not necessarily need to suffer from watching short videos when they are walking, eating, or waiting for something. Some videos' content is attracting and rare[2].

2.1.2 The way to get new videos

Unlike all the videos or article stations, TikTok users only need to slide their screens and get the new recommended videos or videos made by their followed bloggers. It is a natural advantage that the users do not need to quit the website of one video and enter another.

People are fascinated by this setting in the application. They are more likely to be recommended those videos related to their interests.

2.1.3 The distinct label

In each video, the makers can select some labels that have a connection to their videos. Then, the videos are categorized, which means people are likely to get the videos according to their interests. Since they can always receive their favorite videos, they will open this application again for fun and rest. [3]

2.1.4 Support to the COVID-19

They helped others by donating money for that person or agencies who need such support. The first is called TikTok Health Heroes Relief Fund, which contains 150 million dollars in many fields. The second one is TikTok Community Relief Fund, they allotted 40 million dollars to local organizations. Plus, educators, experts, and nonprofits educational agencies were supported by 50 million dollars [11]. In addition, helping SMBs restart and rebuild makes the economy stop shutting down; the market became more active due to their effort. [4]

2.2 The user of TikTok

The first one is users, which is the most basic factor of every internet company.

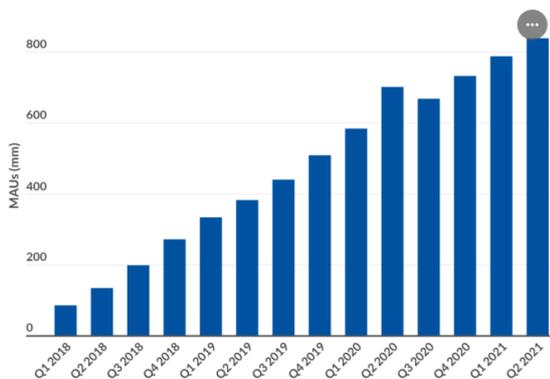


Figure 1. User number of Tik tok from 2018 to 2021 [7]

From this chart, we can directly see that the number of TikTok users has been steadily increasing (except for the third quarter of 2020). Such a steady growth can be maintained when the competition is so fierce, indicating that people have begun to accept and accustomed to this media model. If the growth before 2020 is due to its characteristics, then the growth in the first half of 2020 must be due to the new crown epidemic and home isolation. After reducing outdoor sports and offline interpersonal communication, people are more reliant on the media, which can be described as an exponential increase. The number of users in the second quarter of 2020 has almost doubled compared with the number of users in the same period in 2019.

On the contrary, the number of users of the industry's largest media, Facebook, has hardly changed from 2017 to 2020 (stabilized at two thousand million to two thousand five hundred million) [9]. The real-name age of Facebook users, the proportion of users over 45 years old has reached an astonishing 22%. Besides, only 19% of TikTok users are over 39 years old. The aging of Facebook's users is also the main reason why its growth is not as good as TikTok, but it still has a long way to go before TikTok has more users than Facebook [10].

2.3 The income of TikTok

Firstly, the placement of advertisements in videos accounts for a large part of their income, since a vlogger with more than a million fans can earn more than ten thousand dollars per video if they put one advertisement into it [8]. Some advertisements pop out independently when some traditional videos are finished. Besides, if a video-maker wants to be widely known, they will buy flow in the platform, which means their videos will be recommended to more people. It is an efficient way for them to be famous on the premise that users accept and like their video style and content. Plus, the TikTok coins are also beneficial for the total revenue, because it is a good way for people to give gifts to others in this media.

Advertising on social media has become an alternative to buying advertising spaces offline and posting posters. By targeting some customers through big data, advertising costs for them are greatly reduced, and there is no need to show them to all people passing by a place as before. The big data of the internet can lock a person's hobbies, and based on the personal information they provide, they will deliver advertisements that are most likely to make them buy things. Today's users are more active than before because they do not have to passively accept fixed contents, such as a newspaper or the news network every night. Advertisers can create advertisements specifically placed on the platform based on the characteristics of this social media platform, making customers more attracted [12]. The customer's cohesion is stronger than before and therefore has a

higher customer loyalty. This helps to give users a sense of belonging and identity.

TikTok ads start at \$10 per CPM. Reports from Adage in late 2019 show that TikTok’s cost of advertising can be between \$50,000 to \$120,000 depending on the ad format and duration (12). Different kinds of advertisements have strong variables costs. Advertisements have variables such as Ad objective, bidding method and amount, audiences’ characters, their belonging industry, as well as ad formats. If the merchant chooses all the best delivery methods, the cost of that advertisement can even reach \$120,000. If this advertisement is successfully placed, the revenue to advertisers will definitely be much higher than the cost of placement on TikTok. Conversely, if this advertisement does not identify the most accurate customer base, then this advertisement will most likely have a small impact on sales but will increase the company's financial capabilities. However, in the current era when traffic is money, many companies still choose to advertise; these advertisements are made into short videos to better integrate into this software.

Another attractive method of how TikTok makes money is branded effect and lenses. The principle of this method is to put the company on the discovery label for ten days. This means that a wider range of users have the opportunity to see the company's publicity, but this is not stable, because no one can guarantee how many customers will click in and how many users will be attracted. This is also very expensive for the company. After conversion into U.S. dollars, TikTok can receive \$26079-85375 for each company. This is cheaper than advertising because it does not need to be pushed to a fixed number of customers like an advertisement. Though this is still one of TikTok's main sources of income [13].

There is another way for Tik-Tok to make money. All the users can buy flow in this app. Their videos can be recommended to more users if they pay. In the app, the price is 50 Yuan for 2500 individuals to see. But they cannot make sure that how many people will like your videos. Although it is effective for a video to be widely known, the number of likes and future income cannot be ensured by such an action. Why people want to be famous is for their own benefits: as a vlogger becomes famous with many fans, some agencies will find him or her to cooperate. The video maker is supposed to plant some advertisements with a few seconds of their video, and some video makers are able to earn 60,000 yuan per video. Because advertisers look up to their total video views so that they are willing to pay a high price for a short video. Therefore, those factors contribute to most of the income of TikTok, which is complicated and successful.

2.4. 4P strategy of TikTok analysis

The four P is the product, price, place, and promotion, which are key determining factors to the success of a product or a program [14].

Product: the product of TikTok is not dominant, since it is a superficial video community; however, posting advertisements for more users to see is their significant product. Contrary to traditional industries that produce physical goods, TikTok gets the use of the internet and sells electronic products. Thanks to the new technology and its unique features, they are able to sell their services. Its products successfully attract people who like this application or want to make money from it. Often popped out propaganda about offering positions for advertisement definitely improves their demand.

Price: the price of its products is not cheap, but their cost is almost zero in adding any advertisement. In the angle of economics, the price is determined by both demand and supply. For the consumers or firms that require such a service, their demand is relatively high. In order to make their business be widely known, spending money on social media is an unavoidable choice. When the supply is constant and demand increases, both the quantity and price will increase, which plays an important role for TikTok to make money.[15]

Place: the place of its product is marketed inside the application. This place is suitable for individuals and companies who want to promote their information or products. The tag classification within the software also makes them more likely to be pushed to target customers. In addition, this place will not cause additional expenses such as freight costs and reduce the amount of money that some customers need to pay without increasing TikTok expenses.

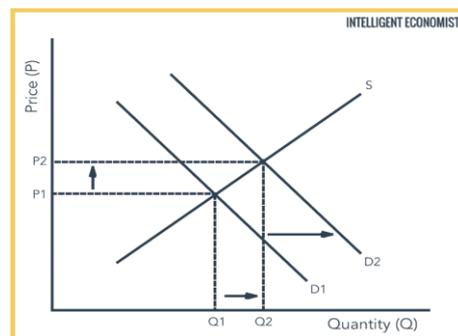


Figure 2. A Shift in the Demand Curve [15]

Promotion: its advertising strategy is also wise. They put their advertisements as their services to be demonstrated by more users. A user always makes his or her own videos, and the content of those videos can be recommendations for products. In this way, TikTok can tell them how and where to post their advertisement for a large group of users. Thus, the promotion of TikTok also almost cost zero dollars [5].

2.5 Future expectation:

There will be a larger demand for this place for advertisements. It does not mean that all the users will receive more unrelated advertisements. By contrast, based on the big data, they will get more useful propaganda. This field is not widely acknowledged, most of the companies still put their cost of promotion on other social media such as Facebook and Twitter, or directly put posters in some crowded places. More people need to become accustomed to accept this kind of new media, so their products will also be easier to sell. The active users of TikTok have grown steadily for more than four years [6].

3. CONCLUSION

Because of the successful services provided by TikTok, they have become a big social media platform and created a co-winning situation with those firms. They are still supposed to mark each user precisely, so they can provide more accurate advertisements without losing active users who are annoyed by the countless advertisements. Keeping this mode to continue to operate is totally effective.

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