

# E-Commerce Predatory Pricing Issue, Internet User, Consumption and Economic Growth in Indonesia

Amaury Capdeville Chapuzet  
Lycée Polyvalent Jean Monnet, France

**Abstract** :This study investigates the response between variables when getting impulses from other variables so that it can be seen the impact of predatory pricing in Indonesia if this is true by understanding the impact of the influence of prices represented by inflation. The inflation indicator was chosen because price movements generally have an impact on inflation movements. And the internet user variable was chosen as a response to internet literacy in Indonesia. The consumption variable was chosen because the desired effect of predatory pricing actors is the level of sales and market share which can be indicated by the level of consumption. The GDP variable is an indicator of the general economy in Indonesia. To achieve the objectives of this research, the Vector Autoregression model is used. We found that the internet has a considerable impact on economic growth and consumption. Internet literacy has a significant negative effect on the general price level in Indonesia. So that when a price war occurs that leads to predatory pricing, it will endanger the Indonesian economy. Considering the relationship between Internet literacy and Internet literacy is significantly negative, which means that the deeper Internet literacy in Indonesia has an impact on general price pressures, which means that the more commercial use of the Internet, the deeper prices will be. So that price wars and predatory pricing have the potential to occur in Indonesia with the increasingly massive use of the Internet in Indonesia. Consumption has a significant impact on economic growth. Internet literacy has an impact on consumption, GDP, and price levels. Where internet literacy provides a positive impetus to economic growth and consumption in Indonesia. However, internet literacy also has the potential to trigger price wars and predatory pricing that is dangerous to the economy in Indonesia.

**Keywords**: Internet User, Consumption, Gross Domestic Product

**JEL Classification** : C01,E24,J24, O14

## 1 INTRODUCTION

The existence of a pandemic cannot be denied having an impact on economic conditions and people's behavior, which in turn affects people's consumption patterns. This of course also affects the level of business sales. There are several product categories that experienced a drastic increase in demand, while a number of other categories experienced a decline. Due to COVID-19, consumption patterns in shopping have changed. Utilizing online shopping channels is one option. In terms of payments, more consumers register for verified digital wallets and mobile/internet banking. Most of the transactions during the pandemic occurred through virtual accounts and digital wallets. The role of the Internet in this pandemic period is very helpful in increasing the growth of public consumption. This is because the internet offers convenience in shopping and payments (Naeem & Ozuem,2021).

There are several factors that influence consumer decisions in trying new brands, one of which is related to the value of goods such as prices, promotions, and shipping costs as well as the convenience and availability of goods when shopping. In addition, consumers also pay more attention to packaging and product sustainability. In terms of discounts and promos carried out by e-commerce, the Government needs to be careful when it wants to curb predatory pricing practices in e-commerce. Because the government's steps can actually lead to a decrease in the level of public consumption. The reason is that so far the level of public consumption is also assisted by public purchases through e-commerce. Well, where people always see discounts given by e-commerce players (Maity & Dass,2014).

Giving discounts on goods both in modern markets such as malls or e-commerce cannot be called predatory pricing. Promotions or discounts are solely intended to attract people's buying interest. the government needs to be careful in this regard, especially in responding to price discounts in e-commerce. The government needs to think of the right steps to provide solutions if e-commerce products are prohibited from giving discounts. Meanwhile, a number of factors that influence consumer decisions to shop directly at the store are price or promotion, product availability, and

the availability of hygienic services. In ensuring store hygiene, consumers pay the most attention to store sanitation or hygiene, followed by regulations on the use of masks and distance restrictions. These factors can be implemented for those of you who have re-opened a shop to sell (Clarkson & Miller,2020).

The purpose of the predatory pricing rule is to protect Indonesian micro, small and medium enterprises (MSMEs). However, what the government needs to do is evaluate its import policy. Because giving a discount cannot be called predatory pricing. The government does need to create a qualified ecosystem so that domestic MSMEs can compete with foreign products. For example, about raw materials and logistics. Usually, predatory pricing is applied when a new competitor is considered to have the potential to 'attack' the company's market. Despite having to lose at the beginning, companies that are accustomed to implementing predatory pricing generally have savings that can be used as long as the strategy is implemented. In Indonesia, predatory pricing cases occur in the online transportation sector (taxi) and cellular network service providers. Recently, one of the online transportation service providers, Grab is suspected of implementing a predatory pricing system which causes an unhealthy competition climate in the online transportation sector. So, do predatory pricing harm consumers? In fact, when there are companies that are involved in price competition (one of them is predatory pricing), the end result is that the market is controlled by only one company. In addition to reducing consumer choice, it also triggers high price increases in the long term. However, do not equate predatory pricing with intense competition. Price wars are very good for consumers if all companies can survive in the midst of that competition (Susetyo et al,2020). Predatory pricing is a move or price that is deliberately prepared to destroy competition. According to them, this is a step that is prohibited in trade principles because it does not provide benefits and does not provide equality. The decision to buy a product online is not just about the price. However, about quality assurance in the form of reviews and word of mouth information. Word of mouth, such as personal reviews, remains the main way consumers find products. In the second place, online advertising is also a common way for consumers to discover new products, followed by proactive search and then social media.

Indonesia is optimistic about a speedy economic recovery. On the other hand, consumers remain cautious in their spending. Many consumers also turn to online platforms to buy various needs. This shift to online sales channels is predicted to continue once the pandemic subsides. The following is a full explanation of changes in consumption patterns of Indonesian people during the Covid-19 pandemic. The average consumer plans to continue online shopping behaviors such as online streaming and shopping for raw materials and food through online ordering and delivery. In addition, there is also a shift in consumer preferences in terms of buying food, from those who prefer to eat in place or dine-in to changing to buying groceries and food delivery online.

## **2 LITERATURE REVIEW**

In every industry, there must be competition. The purpose of the competition itself is to control product quality and of course increase market share by attracting more customers. The existence of competition will trigger players in the industry to provide the best to their target market, both in terms of product quality and service. Therefore, it is necessary to apply a strategy to be able to win the competition. One of them is a predatory pricing strategy. The term predatory tariff is used to describe a condition where the tariff for an item or service is low, which aims to get rid of competitors so that later the provider can determine a higher price. Providers that apply predatory pricing are considered predators. They are willing to sell goods or services below the normal price within a certain period to make his competitors stop offering similar products. When competitors have left the market, predators will raise prices again. Prices are deliberately made to kill competition and there is no level playing field in the trading media and thus the important trading principles, namely the principles of fair trade, bring benefits to buyers and sellers (Susetyo et al,2020). In reality, the losses suffered by incumbent business actors will be much greater than the losses suffered by competing business actors with the same level of efficiency. This is due to the obligation of the incumbent business actor to meet the needs of all market demands at the low price level that he applies. Meanwhile, competing business actors are not required by such obligations, so that competing business actors can regulate their production to minimize losses. The losses of the incumbent business actor will even be greater if the incumbent business actor also has to fulfill the amount of production left by the competing business actor, or if the market increase is greater. Thus, selling at a loss will be very burdensome for business actors who want to apply predatory pricing practices. If successful, predatory pricing can lead to a market monopoly. One example of the implementation of predatory tariffs is exporting goods at a price lower than the cost of production (dumping). Generally, this method is used to deal with

companies that have just entered the market competition. If the monopoly makes a large profit, it will definitely attract new players into the competition. In conditions where competitors from predators can survive in the midst of predatory pricing strategies, the authorities, such as the Sector Supervisory and Regulatory Agencies, generally will not be involved because prices in the market decline fairly. That way, consumer choices are still diverse and competition in the market is still healthy. On the other hand, if predators have monopolized the market, the authorities will immediately intervene.

Predatory pricing is defined as a pricing strategy in which the price set for a product or service is very low from the industry market price with the aim of reaching new customers, eliminating competitors, or creating barriers for potential new competitors to enter the industrial market. From this definition, predatory pricing strategy looks like a normal strategy in business. However, it cannot be realized. Predatory pricing strategies are often considered illegal actions in an effort to win the competition. Because setting the price of a product or service so low will actually eliminate healthy competition so that the market is more vulnerable to monopoly. The implementation of this strategy is seen as a deliberate attempt to damage the market (Franck & Peitz, 2019). Jurisdictions in many countries consider that the implementation of a predatory pricing strategy is illegal because it is considered anti-competitive, which is contrary to the laws and regulations on competition. Although in reality, it is quite difficult to prove, because industry players who apply this strategy argue that price reductions are a natural thing in business competition. The implementation of predatory pricing strategy certainly has certain objectives, both to win the market competition and reach new customers more broadly.

For companies, predatory pricing clearly provides an opportunity to seize and dominate market share. By setting the price of products and services as low as possible from the market price, it will attract more customers and of course, the sales volume will increase drastically. Price wars in the implementation of predatory pricing strategies are good for consumers as long as industry players are able to survive. This is because consumers will have more choices of products or services to meet their needs. In addition, consumers can also consume products or use quality services at very affordable prices. Behind the benefits of setting a low price in a predatory pricing strategy, there are also risks and even threats of negative impacts. In a market struggle, generally, the competition will be won by players who are able to survive to the end in offering quality products and services at low prices. Because this strategy requires a lot of sacrifices, where the company must be willing to reduce profits and even bear losses due to high production costs. For companies that already have a strong financial foundation, it is certainly not a problem. However, it is different for companies that are new players in the related industrial market (Bork, 2021).

If the price war in the industry continues, sooner or later there will be players who are unable to survive so they have to withdraw or even disappear from the competition because they are unable to bear bigger losses. As a result, the market will be dominated by a small number of players or even leaving only one of my players who is financially strong. Furthermore, this will create market dominance which is known as a monopoly. The retreat or even the loss of competitors will certainly loosen the competition. As a result, the monopoly power is getting bigger and bigger. Players who are able to survive in this price war will certainly be the winner as the ruler of the industrial market so that they have the flexibility to regulate the market, especially in determining prices. In order to recoup the high costs of production and increase their profits again, the firms that win the price war and the monopolists tend to raise the prices of their products and services even higher. This condition is certainly less favorable for consumers. In addition to being affected by high prices for products and services that can last in the long term, consumers are also faced with a lack of choice. In principle, the price war in competition is not always bad, it can even have a positive impact if all industry players are able to survive. However, the implementation of the predatory pricing strategy is considered to only benefit consumers temporarily. In fact, predatory pricing actually 'kills' many industry players, especially new players and players who lack a strong financial foundation. If conditions are like this, then the price war that initially had a positive impact on consumers, then turned into a disadvantage (Ma et al, 2019).

### **3 RESEARCH OBJECTIVE AND METHODOLOGY**

This study investigates the response between variables when getting impulses from other variables so that it can be seen the impact of predatory pricing in Indonesia if this is true by understanding the impact of the influence of prices represented by inflation. The inflation indicator was chosen because price movements generally have an impact on inflation movements. And the internet user variable was chosen as a response to internet literacy in Indonesia. The

consumption variable was chosen because the desired effect of predatory pricing actors is the level of sales and market share which can be indicated by the level of consumption. The GDP variable is an indicator of the general economy in Indonesia. To achieve the objectives of this research, the Vector Autoregression model is used. We use Var model as follows:

$$\text{CONSUMPTION} = C(1,1)*\text{CONSUMPTION}(-1) + C(1,2)*\text{CONSUMPTION}(-2) + C(1,3)*\text{GDP}(-1) + C(1,4)*\text{GDP}(-2) + C(1,5)*\text{INFLATION}(-1) + C(1,6)*\text{INFLATION}(-2) + C(1,7)*\text{INTERNET\_USER}(-1) + C(1,8)*\text{INTERNET\_USER}(-2) + C(1,9)$$

$$\text{GDP} = C(2,1)*\text{CONSUMPTION}(-1) + C(2,2)*\text{CONSUMPTION}(-2) + C(2,3)*\text{GDP}(-1) + C(2,4)*\text{GDP}(-2) + C(2,5)*\text{INFLATION}(-1) + C(2,6)*\text{INFLATION}(-2) + C(2,7)*\text{INTERNET\_USER}(-1) + C(2,8)*\text{INTERNET\_USER}(-2) + C(2,9)$$

$$\text{INFLATION} = C(3,1)*\text{CONSUMPTION}(-1) + C(3,2)*\text{CONSUMPTION}(-2) + C(3,3)*\text{GDP}(-1) + C(3,4)*\text{GDP}(-2) + C(3,5)*\text{INFLATION}(-1) + C(3,6)*\text{INFLATION}(-2) + C(3,7)*\text{INTERNET\_USER}(-1) + C(3,8)*\text{INTERNET\_USER}(-2) + C(3,9)$$

$$\text{INTERNET\_USER} = C(4,1)*\text{CONSUMPTION}(-1) + C(4,2)*\text{CONSUMPTION}(-2) + C(4,3)*\text{GDP}(-1) + C(4,4)*\text{GDP}(-2) + C(4,5)*\text{INFLATION}(-1) + C(4,6)*\text{INFLATION}(-2) + C(4,7)*\text{INTERNET\_USER}(-1) + C(4,8)*\text{INTERNET\_USER}(-2) + C(4,9)$$

All data are secondary data from world banks.

#### 4 RESULTS AND DISCUSSION

The following are the estimation results that we have done:

$$\begin{aligned} \text{CONSUMPTION} = & 1.17040523402*\text{CONSUMPTION}(-1) - 0.192608552245*\text{CONSUMPTION}(-2) + \\ & 0.00741733973758*\text{GDP}(-1) + 0.00526908911694*\text{GDP}(-2) + 0.0511807079464*\text{INFLATION}(-1) + \\ & 0.0139226860099*\text{INFLATION}(-2) + 192.805003328*\text{INTERNET\_USER}(-1) - 71.5464475608*\text{INTERNET\_USER}(-2) + \\ & 16376557338.9 \end{aligned}$$

$$\begin{aligned} \text{GDP} = & 8.72909034505*\text{CONSUMPTION}(-1) - 7.06165332348*\text{CONSUMPTION}(-2) + 1.47580101342*\text{GDP}(-1) - \\ & 1.0109829522*\text{GDP}(-2) - 1.02004063126*\text{INFLATION}(-1) + 0.602481205863*\text{INFLATION}(-2) + \\ & 2327.60383449*\text{INTERNET\_USER}(-1) - 7022.64369784*\text{INTERNET\_USER}(-2) - 528267632418 \end{aligned}$$

$$\begin{aligned} \text{INFLATION} = & 2.56388532822*\text{CONSUMPTION}(-1) - 1.89162358786*\text{CONSUMPTION}(-2) + 0.248613448896*\text{GDP}(-1) - \\ & 0.368952058471*\text{GDP}(-2) - 0.480588348944*\text{INFLATION}(-1) + 0.0677310188421*\text{INFLATION}(-2) - \\ & 2180.82539741*\text{INTERNET\_USER}(-1) + 82.7794201713*\text{INTERNET\_USER}(-2) - 194193585519 \end{aligned}$$

$$\begin{aligned} \text{INTERNET\_USER} = & - 0.000396415502936*\text{CONSUMPTION}(-1) + 0.000513422540283*\text{CONSUMPTION}(-2) + \\ & 3.75978557496e-06*\text{GDP}(-1) - 3.13648133422e-05*\text{GDP}(-2) - 2.67842300086e-05*\text{INFLATION}(-1) + 2.9137665025e- \\ & 05*\text{INFLATION}(-2) + 0.523004978111*\text{INTERNET\_USER}(-1) + 0.715959337252*\text{INTERNET\_USER}(-2) - 27304466.1033 \end{aligned}$$

The estimation results from the first estimate can be seen in table 1 below:

Table 1. Estimation Result

	CONSUMPTION	GDP	INFLATION	INTERNET_USER
CONSUMPTION(-1)	1.170405	*8.72909	*2.563885	-0.000396
	-0.31963	-5.84208	-3.31648	-0.00028
	[ 3.66174]	[ 1.49417]	[ 0.77308]	[ -1.40522]
CONSUMPTION(-2)	-0.192609	*-7.061653	-1.891624	0.000513
	-0.32707	-5.97811	-3.3937	-0.00029
	[ -0.58888]	[ -1.18125]	[ -0.55739]	[ 1.77858]
GDP(-1)	0.007417	1.475801	0.248613	*3.76E-06
	-0.01795	-0.32803	-0.18622	-1.60E-05
	[ 0.41328]	[ 4.49893]	[ 1.33505]	[ 0.23736]
GDP(-2)	0.005269	-1.010983	-0.368952	*-3.14E-05
	-0.01742	-0.31831	-0.1807	-1.50E-05
	[ 0.30256]	[ -3.17614]	[ -2.04181]	[ -2.04061]

INFLATION(-1)	0.051181	-1.020041	-0.480588	-2.68E-05
	-0.04748	-0.86781	-0.49264	-4.20E-05
	[ 1.07796]	[-1.17542]	[-0.97553]	[-0.63917]
INFLATION(-2)	0.013923	0.602481	0.067731	2.91E-05
	-0.03225	-0.58936	-0.33457	-2.80E-05
	[ 0.43178]	[ 1.02226]	[ 0.20244]	[ 1.02384]
INTERNET_USER(-1)	192.805	2327.604	-2180.825	0.523005
	-315.014	-5757.69	-3268.57	-0.27803
	[ 0.61205]	[ 0.40426]	[-0.66721]	[ 1.88113]
INTERNET_USER(-2)	-71.54645	-7022.644	82.77942	0.715959
	-440.386	-8049.19	-4569.42	-0.38868
	[-0.16246]	[-0.87247]	[ 0.01812]	[ 1.84204]
C	1.64E+10	-5.28E+11	-1.94E+11	-27304466
	-1.20E+10	-2.30E+11	-1.30E+11	-1.10E+07
	[ 1.31257]	[-2.31652]	[-1.50006]	[-2.47958]
R-squared	0.999795	0.987655	0.490064	0.99785
Adj. R-squared	0.999613	0.976682	0.036788	0.995939
Sum sq. resids	6.34E+19	2.12E+22	6.82E+21	4.94E+13
S.E. equation	2.65E+09	4.85E+10	2.75E+10	2342198
F-statistic	5485.67	90.00713	1.081161	522.1945
Log likelihood	-409.8891	-462.1913	-452	-283.3014
Akaike AIC	46.54324	52.35459	51.22222	32.47793
Schwarz SC	46.98842	52.79978	51.66741	32.92312
Mean dependent	5.22E+11	6.75E+11	4.18E+10	39018296
S.D. dependent	1.35E+11	3.18E+11	2.81E+10	36755952
Determinant resid covariance (dof adj.)		1.42E+73		
Determinant resid covariance		8.88E+71		
Log likelihood		-1593.166		
Akaike information criterion		181.0185		
Schwarz criterion		182.7992		
Number of coefficients		36		

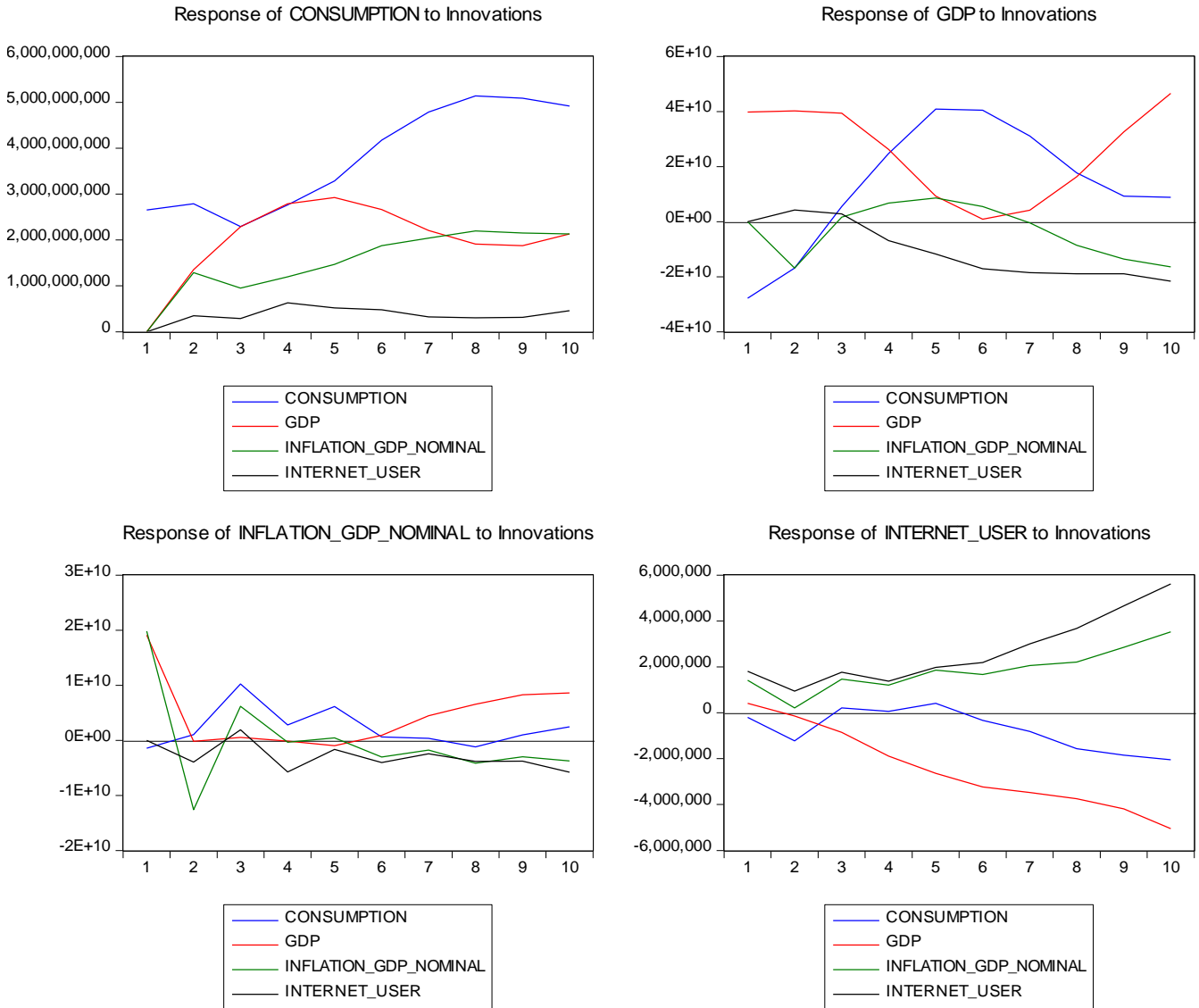
Consumption in the past is positively related and has no significant effect on current consumption, Consumption is positively related and has a significant effect on GDP, Consumption is negatively related and has no significant effect on internet literacy. From the results of these indications, it can be seen that changes in the level of consumption of the Indonesian people have a significant impact with a unidirectional or positive direction on economic growth and inflation in Indonesia. This means that the level of consumption significantly affects the general price level in Indonesia. However, consumption does not significantly affect internet literacy in Indonesia.

Past GDP is not significantly positively related to current GDP. GDP is not significantly positively related to the level of consumption in Indonesia. GDP also has a significant effect on internet literacy in Indonesia. From the results of this estimation, it can be seen that in Indonesia, consumption affects significantly in Indonesia and not vice versa. However, GDP has a significant effect with a positive influence on the level of Internet literacy in Indonesia. Inflation is not significantly positively related to consumption, GDP and past inflation does not have a positive effect on current inflation. However, in the short term, inflation has a significant negative effect and in the long term, inflation has a significant positive effect.

Internet users as an indicator of internet literacy, have a significant positive effect on consumption, GDP, and inflation. However, the level of past literacy has no significant effect on the current literacy level. This indicates that Digital Technology or the internet has a considerable impact on economic growth and consumption. Internet literacy has a significant negative effect on the general price level in Indonesia. So that when a price war occurs that leads to predatory pricing, it will endanger the Indonesian economy. Considering the relationship between Internet literacy and Internet literacy is significantly negative, which means that the deeper Internet literacy in Indonesia has an impact on general price pressures, which means that the more commercial use of the Internet, the deeper prices will be. So that

price wars and predatory pricing have the potential to occur in Indonesia with the increasingly massive use of the Internet in Indonesia. To see a picture of the influence or impulse response, the impulse response graph in this study is presented. Response Impulse is presented in the following graph:

Figure 1. Response Impulse  
Response to Cholesky One S.D. (d.f. adjusted) Innovations



From the results of the response and impulse graphs, it can be seen the direction of influence between the variables being tested. From the test results, it can be seen that consumption has a significant impact on economic growth. Internet literacy has an impact on consumption, GDP, and price levels. Where internet literacy provides a positive impetus to economic growth and consumption in Indonesia. However, internet literacy also has the potential to trigger price wars and predatory pricing that is dangerous to the economy in Indonesia.

## 5 CONCLUSION

Digital Technology or the internet has a considerable impact on economic growth and consumption. Internet literacy has a significant negative effect on the general price level in Indonesia. So that when a price war occurs that leads to predatory pricing, it will endanger the Indonesian economy. Considering the relationship between Internet literacy and

Internet literacy is significantly negative, which means that the deeper Internet literacy in Indonesia has an impact on general price pressures, which means that the more commercial use of the Internet, the deeper prices will be. So that price wars and predatory pricing have the potential to occur in Indonesia with the increasingly massive use of the Internet in Indonesia. Consumption has a significant impact on economic growth. Internet literacy has an impact on consumption, GDP, and price levels. Where internet literacy provides a positive impetus to economic growth and consumption in Indonesia. However, internet literacy also has the potential to trigger price wars and predatory pricing that is dangerous to the economy in Indonesia.

## REFERENCES

- Bork,R. (2021). *The Antitrust Paradox: A Policy at War With Itself*. Virginia : Bork Publishing LLC
- Clarkson,K.W., Miller,R.L. (2020).*Business Law: Text and Cases*. Boston : Cengage Learning
- Franck,J.U., Peitz,M. (2019). *Market definition and market power in the platform economy*. Bruxelles : CERRE
- Ma,W., Wang,Q., Yang,H., Zhang,Y. (2019). *An analysis of price competition and price wars in Australia's domestic airline market*. *Transport Policy*, Volume 81, September 2019, Pages 163-172. doi : 10.1016/j.tranpol.2019.06.008
- Maity,M., Dass,M. (2014).*Consumer decision-making across modern and traditional channels: E-commerce, m-commerce, in-store*. *Decision Support Systems*,Volume 61, May 2014, Pages 34. doi : 10.1016/j.dss.2014.01.008-46
- Naeem,M., Ozuem,W. (2021). *The role of social media in internet banking transition during COVID-19 pandemic: Using multiple methods and sources in qualitative research*. *Journal of Retailing and Consumer Services*,Volume 60, May 2021, 102483. doi : 10.1016/j.jretconser.2021.102483
- Susetyo,H., Waagstein,PR, Cahyono,A.B (2020).*Justice Principles for Start-Up Business in Indonesia*.In : *Advancing Rule of Law in a Global Context* Proceedings of the International Conference on Law and Governance in a Global Context (icLave 2017) (pp35-42). Depok,Indonesia.November 1-2, 2017. London : CRC Press