Predatory Pricing and E-Commerce

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Abstract

Based on the efficient markets hypothesis and the Brooke Group two-pronged test, this article uses the below-cost pricing method adopted by Shopee as a case study to investigate the likelihood of predatory pricing in the e-commerce market. The result obtained shows that, owing to information technology innovation and financial deregulation, the industrial environment characterized by an efficient capital market allows an efficient plundered firm to raise enough funds to fight against the deep-pocketed predator. Hence, it is unlikely for predatory pricing to take place in the e-commerce market that is distinguished by its dynamic lead in innovation and constantly shifting products. Besides, since the economies of scale of an e-commerce firm are mostly achieved by a huge demand rather than by supply, it is difficult for a new entrant to cut costs by unilaterally increasing output. Hence, Shopee has had to implement various kinds of price promotions, such as a freight subsidy, to increase its sales volume so as to realize the economies of scale through the demand side. This way of doing business can not only spread fixed costs over a large volume, but can also expand a firm's business network to other areas, such as advertisements, media, warehousing, and online payments, so as to achieve economies of scope.

Keywords: Predatory Pricing, Efficient Capital Market, E-commerce Market, Market Definition, Network Effects.

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