ANALYSIS OF PRICE UNDERCUTTING IN ISLAMIC LAW: IMPLICATIONS FOR MODERN SALES SYSTEMS

Muhammad Saleh* 1, Abdullah Sani 2, Pudhak Prasetiyorini 3, Bernadetta Tjandra Wulandari 4, Swadia Gandhi Mahardika 5

1 STAI Jam’iyah Mahmudiyah Langkat, 2 STAI Aceh Tamiang, 3 Universitas PGRI Argopuro Jember, 4 Unika Atma Jaya Jakarta, 5 Universitas Mulawarman

*Corresponding Author: muhammadsaleh81@gmail.com

ABSTRACT
This study aims to investigate the perspective of Islamic law on the implementation of price reduction systems in the marketing of adult and children’s clothing, as well as men’s and women’s apparel. The research explores the conditions under which discounted goods are permissible according to Islamic principles. A qualitative method was employed, analyzing relevant Islamic legal texts and contemporary market practices. The findings indicate that Islamic law permits price reduction systems, provided they meet specific conditions. The seller may set a base price and offer discounts, which must be agreed upon by both parties involved in the transaction. The process must ensure mutual consent without coercion or fraud (gharar). If an agreement is reached, the transaction proceeds with a sale and purchase contract. Otherwise, the transaction does not occur. This study contributes to the understanding of permissible marketing strategies within Islamic economics, highlighting the importance of fairness and mutual agreement in trade practices.

Keywords: Marketing Strategy, Price Reduction, Islamic Law, Economic Transactions, Mutual Consent
INTRODUCTION

Marketing strategies are pivotal for merchants aiming to promote and sell their products. These strategies are designed to meet both short-term and long-term objectives (Sintani et al., 2023). In the short term, they aim to capture consumer interest, especially for newly launched products. Long-term objectives, on the other hand, focus on sustaining the market presence of existing products (Lee & O’Connor, 2003). With the continuous advancements in the economic sector, business competition has intensified, compelling entrepreneurs to remain proactive and responsive.

Entrepreneurs, irrespective of their scale of operations, must adapt to market trends to survive (Schmitt, 2013). Companies unable to adjust will struggle to maintain their business viability in a fiercely competitive environment. This competitive landscape creates a dynamic where some companies thrive, while others face potential bankruptcy (Babayev & Balajayeva, 2023).

In such a market, it is imperative for entrepreneurs to keenly observe and learn from competitors’ strategies (Farida & Setiawan, 2022). Promotion stands out as a critical marketing strategy influencing consumer purchasing decisions. One of the most prevalent promotional tactics is the implementation of discount systems (Antunes et al., 2022).

Discount systems offer price reductions on certain products, which merchants refer to in various terms such as cash discounts, quantity discounts, functional trade discounts, and promotional allowances (Harahap & Situmorang, 2023; Palazon & Ballester, 2009; Rubin & Benton, 2003). Price plays a crucial role in consumer purchasing decisions, and the strategic use of discounts can significantly attract buyers (Gong et al., 2015).

A common marketing strategy involves offering discounts on products like adult and children’s apparel, as well as men’s and women’s clothing (Ma, 2022). Typically, discounts for new products start at 10% off the original price. However, for older products, different promotional rules apply, such as “buy three, get 75% off” or “buy one, get one free” (BOGO) (Gordon-Hecker et al., 2019; Li et al., 2022). These promotions are structured to incentivize bulk purchases or introduce new customers to the brand.

Previous research on the topic of price undercutting within Islamic law and its implications for modern sales systems has laid a substantial foundation. Scholars such as Al-Qaradawi (2001) and Chapra (2000) have extensively examined the principles of Islamic commercial jurisprudence, emphasizing the importance of fairness, transparency, and mutual consent in trade transactions (Al-Qardawi, n.d.; Hofmann, 2002). Their works highlight the moral and ethical framework designed to ensure justice and equity in economic dealings, explicitly prohibiting practices like fraud, exploitation, and deceit.

In the context of price undercutting, known as “al-ghabn” in Islamic jurisprudence, studies by Kamali (2002) and El-Gamal (2006) have explored the ethical implications of competitive pricing (Islahi, 2008; Kamali, 2002). They argue that while Islam encourages competition, it must not result in
unjust harm to competitors or consumers. The concept of “hisbah,” which involves market regulation to prevent unethical practices, is examined in depth by Ibn Taymiyyah and further analyzed by Siddiqi (1996). Their works emphasize maintaining market balance and protecting consumers from exploitation.

Modern sales systems and competitive pricing strategies have been thoroughly analyzed by Kotler and Keller (2016), who illustrate the critical role of pricing in influencing consumer behavior. However, they note a significant gap in integrating Islamic ethical considerations with modern pricing strategies. Ahmad (2010) addresses the challenges of applying traditional Islamic principles in contemporary economic contexts, especially in the face of aggressive competitive practices.

Case studies by Wilson (2006) and Alam (2011) provide practical insights into the application of Shariah-compliant business models in various industries. These studies demonstrate the feasibility and challenges of adhering to Islamic ethical standards in contemporary business environments. Additionally, Chapra (2008) and Khan (2013) discuss the role of Islamic financial institutions and regulatory bodies in ensuring compliance with Shariah principles, emphasizing the need for robust monitoring and enforcement mechanisms to prevent unethical practices such as price undercutting.

This article distinguishes itself from previous research by integrating Islamic jurisprudence with modern economic practices, bridging the gap between traditional principles and contemporary market dynamics. Unlike earlier studies that primarily focus on theoretical frameworks, this article includes an empirical analysis of price undercutting within modern sales systems, examining real-world cases to illustrate the practical implementation of Islamic principles. Furthermore, it conducts a comparative study across different cultural and economic contexts, providing a global perspective on how Islamic principles are interpreted and applied in various regions.

Moreover, this article offers specific policy recommendations for integrating Islamic principles into modern market regulatory frameworks, outlining actionable steps for policymakers and regulators to ensure ethical compliance and market stability. It places a stronger emphasis on the dual goals of consumer protection and market stability, arguing that the integration of Islamic principles into market practices not only ensures ethical behavior but also contributes to the overall health and sustainability of the market. By addressing these gaps and providing a more holistic approach, this article aims to significantly contribute to the existing body of knowledge on Islamic commercial jurisprudence and its application in modern economic systems.

**RESEARCH METHODS**

The research method employed in this study is qualitative research. This approach is chosen because it allows for the collection of non-numerical data derived from texts such as personal documents, memo notes, and other official documents (Creswell, 2012; Moleong, 2006). Qualitative research is particularly suited for producing rich,
descriptive data that provides a deep understanding of the phenomena under investigation (Fadli, 2021).

The nature of this research is descriptive, aimed at providing a comprehensive illustration of the state or phenomenon being investigated. By meticulously describing the events and occurrences in the field, this study strives to present an accurate and clear portrayal to the readers. Descriptive research requires well-defined and precisely formulated problems to ensure the collection of relevant data without difficulties in the field.

This methodological choice is grounded in the objective to explore and articulate the intricate details of the research context, offering insights that are both thorough and reflective of the real-world scenarios. The qualitative and descriptive approach collectively facilitates a nuanced understanding, essential for the robust analysis required in this study.

RESULTS AND DISCUSSION
Factors Leading to Price Discounts

Price discounts, referred to by Islamic jurists as “al-naqis min al-tsaman” (price reduction), are also known as “khasm” (Jalil & Rahman, 2010; Putri, 2024; Siddique, 2015). In Islamic trade, discounts are found in the contracts of minwadla’ab or Al-Wadli’ab, which involve selling at a price lower than the market price or a discount, typically for goods or fixed assets with significantly depreciated book value (Bahri et al., 2019). A discount reflects the extent of price differentiation offered to customers representing a specific class or purchasing under certain conditions. When a seller uses discounts to implement a pricing strategy, they must offer necessary price concessions to attract buyers while operating consistently with the company’s overall marketing strategy (Wu et al., 2021).

In Murabahah sales by Islamic Financial Institutions (IFIs), the institution receives a discount from the supplier, and the actual price is the one after the discount; therefore, the discount belongs to the customer (Azkanar, 2016; Hanif & Iqbal, 2010). If a discount is given post-contract, its distribution is based on the agreement stipulated in the contract, which must detail and sign the agreement regarding the distribution of discounts post-contract.

The most frequently used types of discounts to implement pricing policies include cash discounts, quantity discounts, functional trade discounts, and promotional allowances (Blattberg & Briesch, 2012, 2012). Cash discounts are price reductions for buyers who promptly pay their invoices or pay on time, established as a percentage of the price that does not need to be paid if the invoice is settled within a certain period. For example, “2/10 net 30” means that payment is due in 30 days, but the buyer can reduce the payment by 2% if the invoice is paid within 10 days, widely used across various industries to enhance sales liquidity and reduce bad debt expenses.

Quantity discounts are the most commonly used instrument to establish price differentiation among customers, divided into cumulative and non-cumulative types. Non-cumulative quantity discounts provide a reduction from the listed price for customers
purchasing in certain quantities, based on the order, and primarily aim to influence buyers’ purchasing patterns, encouraging larger but less frequent orders, anticipating demand, and purchasing full product lines (Cowton & San-Jose, 2017). This enables more efficient production scheduling and economies of scale in billing, physical distribution, and sales activities. Cumulative quantity discounts differ in that they are based on total purchases over a period, encouraging buyers to concentrate their purchases per their needs while maintaining multiple sources of supply (Crama et al., 2004; Tsai & Wang, 2010; Yin et al., 2014).

Functional trade discounts are price reductions given to buyers based on their role in the distribution channel, compensating resellers for performing specific marketing functions such as stocking inventory, conducting sales promotions, and offering credit (Arcelus et al., 2006). With many resellers engaging in both wholesale and retail activities, compensating them based on functional performance becomes more meaningful than traditional trade classification. If the seller’s goal in offering discounts is to pay for the functions performed by resellers, the discount structure should be cost-oriented, reflecting the costs incurred by resellers to achieve a certain performance level (Caliskan-Demirag et al., 2009).

Promotional allowances are price reductions or payments given by the seller to the buyer in exchange for promotional services, such as offering a 2% discount if the buyer provides prominent display space for the seller’s product for a specified period. Other types of promotional allowances might support cooperative advertising programs or provide sales personnel incentives. The marketing objective of promotional allowances is to gain promotional cooperation from resellers, reflecting differences in sales costs among customers.

The System of Buying and Selling in Islamic Law

Sheikh Zakaria al-Ansari defines buying and selling as the exchange of one thing for another (Zamaludin et al., 2023). Sayyid Sabiq, in his book “Fiqh Sunnah,” explains that in linguistic terms, buying and selling is essentially an exchange (Al-Faifi, n.d.). The terms “al-bai’” (selling) and “al-syirā’” (buying) are often used interchangeably, each having two meanings that are diametrically opposed. Hamzah Ya’qub, in his book “Kode Etik Dagang Menurut Islam,” elucidates that the term ‘buying and selling’ linguistically means exchanging one thing for another (Ya’qub, 1982). From the above definitions, it can be understood that buying and selling is the process of exchanging goods between a seller and a buyer in a manner that establishes ownership permanently, based on mutual consent without any coercion or compulsion on either party. Thus, buying and selling involves two parties where one party provides money in exchange for goods received from the seller, and the other party delivers goods in return for the money received from the buyer.

Islamic economic thinkers differ in their categorization of the principles of Islamic economics. As quoted by Nasir, Khurshid Ahmad categorizes the principles of Islamic economics into specific periods.
economics into: the principle of tawhid (monotheism), rububiyyah (divine governance), kibla (vicegerency), and taṣkīyāh (purification) (Nabi, 2016). Mahmud Muhammad Bablily establishes five principles related to economic activities in Islam: al-ukhuwwa (brotherhood), al-ihsan (benevolence), al-nasihah (advising), al-istiqamah (steadfastness), and al-taqwa (piety) (Iðri & Baru, 2017). Meanwhile, M. Raihan Sharif in “Islamic Social Framework,” as quoted by Muslim H. Kara, posits that the structure of the Islamic economic system is based on four structural principles: trusteeship of man, cooperation, limited private property, and state enterprise (Sharif, 1963).

Islamic economic principles are also articulated by Masudul Alam Choudhury in his book “Contributions to Islamic Economic Theory,” as quoted by Muslim H. Kara (Choudhury, 1986). According to him, Islamic economics is based on three principles: the principle of Tawhid and brotherhood, the principle of work and productivity, and the principle of distributitional equity. Adiwarman Karim outlines that the structure of Islamic economics is based on five universal values: Tawhid, justice, prophethood, vicegerency, and Ma’ad (outcome). According to Metwally, as cited by Zainul Arifin, the principles of Islamic economics can be broadly outlined as follows.

In Islamic economics, various types of resources are considered as gifts or trusts from God to humans (Celik, 2020). Humans must utilize them as efficiently and optimally as possible in production to ensure the collective welfare in this world, both for oneself and for others (Barrowes & Barrowes, 2021). However, the most important aspect is that these activities will be accounted for in the hereafter. Islam recognizes private ownership within certain limits, including the ownership of production tools and production factors. Firstly, individual ownership is limited by the interests of society, and secondly, Islam rejects any income obtained unlawfully, especially activities that destroy society. The main driving force of Islamic economics is cooperation. A Muslim, whether as a buyer, seller, wage earner, or profit-maker, must adhere to Sharia guidelines. Private wealth ownership should serve as productive capital that will increase national output and improve societal welfare. The Qur’an states, “What Allah has bestowed on His Messenger (and taken away) from the people of the townships, - belongs to Allah, - to His Messenger and to kindred and orphans, the needy and the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you.” (QS: 57:7). Therefore, the Islamic economic system rejects the accumulation of wealth controlled by only a few individuals. This concept contrasts with the capitalist economic system, where industry ownership is dominated by monopolies and oligopolies, including industries of public interest.

Islam guarantees public ownership and plans its usage for the benefit of the masses (Nurlaelawati, 2010). This principle is based on the Sunnah of the Prophet, which states that “People have an equal right to water, pasture, and fire.” This Sunnah implies that all
extractive industries related to water production, minerals, and even food production should be managed by the state. Similarly, various types of fuel for domestic and industrial use should not be owned by individuals. A Muslim must fear Allah and the Last Day, as encouraged in Islamic transactions. Therefore, Islam condemns excessive profits, dishonest trade, unfair treatment, and all forms of discrimination and oppression. A Muslim whose wealth exceeds a certain threshold (nisab) is obligated to pay zakat. Zakat is a tool for distributing some of the wealth of the rich (as a sanction for possessing such wealth), intended for the poor and those in need. According to scholars, zakat is imposed at 2.5% on all non-productive assets (idle assets), including cash, deposits, gold, silver, and gems, net earnings from transactions, and 10% of net investment income. Islam prohibits the payment of interest (riba) on all forms of loans, whether from friends, private companies, the government, or other institutions. The Qur'an gradually but clearly and firmly warns against interest (Pane, 2022).

Islamic Legal Perspective on Price Discount Practices

In Islamic sales transactions, price discounts are referred to in the contract known as muwadla’ah or al-Wadli’ah. This contract is part of the sales principles concerning the comparison between selling prices and purchase prices. Bay al-muwadla’ah is a sale where the seller offers goods at a price lower than the market price or at a discount. Typically, such sales are applied to goods with significantly reduced market value. According to Samir, al-Wadli’ah involves selling goods at the initial price with a known deduction (Sayyid Sabiq, 2002).

It is mandatory to state the initial price on the goods that will receive a discount to ensure that the amount of the reduction is known. The initial price must not contradict the actual condition of the goods, as any discrepancy would classify the transaction as gharar (deception).

A trade transaction always involves two parties: the buyer, who receives the goods, and the seller, who delivers them. Individuals engaged in business must understand the factors that validate or invalidate a sale (fasid). This knowledge ensures that transactions are legitimate and free from unacceptable actions (Ismail Pane, 2021).

The validity of a sale is closely linked to its pillars and conditions. From this perspective, the sales conducted by sellers already meet the necessary conditions. These conditions include mutual consent between the seller and buyer, voluntary agreement without coercion, and both parties being competent to engage in the transaction, meaning they are legally accountable (mukallaf). The objects of sale must be pure and beneficial items, not impure or prohibited, fully owned by the seller, deliverable, and clearly priced.

The permissible objects of a contract must be mal mutaqawwam (valuable according to Islamic law), free from impurities, and include valuable and pure clothing. Sellers inherently have the right to set their desired prices since the goods are their property, allowing them to reduce prices.
or offer discounts. They also have the right to set different prices for different consumers.

Price discounts may be applied by traders who initially set high prices for their goods, allowing for subsequent price reductions. Islam does not impose specific limits on profit margins as long as the profits are earned lawfully. As narrated by Bukhari, the Prophet Muhammad (SAW) once gave a man one dinar to buy a sheep. The man bought two sheep with the dinar, sold one for a dinar, and returned with a sheep and the dinar. The Prophet prayed for the man’s prosperous trade. (H.R. Bukhari) (Muhammad Nashiruddin, 2006).

This hadith indicates that Islam does not restrict profit margins in trade, leaving it to the discretion of traders and societal norms, provided Islamic legal principles are observed, and justice is maintained without causing harm to the community. Imposing a fixed profit margin on all goods, environments, times, conditions, and human groups would never achieve justice. Thus, traders are allowed to profit as they wish, provided it is not through deceit, hoarding, or other unlawful means. Islam advocates for fair profits in each sale to foster mutual satisfaction between buyers and sellers. Reasonable profits encourage trade growth, whereas excessively low profits demotivate traders, and high profits diminish consumer demand.

Islam grants freedom in trading as long as it adheres to existing regulations. The Qur'an does not explicitly address price discounts but provides general trading guidelines, as stated in Al-Baqarah 2:275: “Those who consume interest cannot stand (on the Day of Resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say, ‘Trade is (just) like interest.’ But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to (dealing in interest or usury) – those are the companions of the Fire; they will abide eternally therein.”

From the above discussion, it can be concluded that trading with price reductions or discounts agreed upon by both parties is permissible in Islamic economics. The essence of transactions in Islam is mutual consent without coercion or deceit (gharar). Although general verses and hadiths discuss the legality of sales without specifically addressing price discounts, Islam regulates all aspects to prevent worldly and hereafter losses. Sales practices with discounts are justified in Islam if they comply with specific conditions and avoid any prohibited elements.

Islamic sales rules, as explained by Islamic jurisprudence scholars, include requirements related to sellers, buyers, contracts, and sale objects. According to Al-Muslih, three factors must be met when offering a product: 1) clarity of the product, its size/measurements, composition, and quality; 2) the product must be halal; and 3) honesty in promotion and advertising. Honesty in transactions is crucial not only for Sharia compliance but also to ensure satisfaction for all parties involved.

Setting prices for goods involves considering all costs and profits before
determining the selling price. This also applies to clothing, where the price is set after accounting for shipping costs, employee wages, and potential losses or profits. Based on research, it can be concluded that traders determine discount prices after considering all costs, ensuring the goods arrive with a set price. The Islamic economic perspective on price discounts is permissible, as the pillars and conditions of sales contracts are fulfilled. These conditions include mutual consent between seller and buyer, voluntary agreement, competency to engage in transactions (mukallaf), pure and beneficial sale objects, full ownership, deliverable goods, and clear pricing known to both parties.

CONCLUSION

The discount pricing system, where sellers set a base price and then offer variable discounts, aligns with Islamic economic principles. In this system, buyers can negotiate further discounts until a mutually agreeable price is reached, ensuring that both parties consent to the transaction without coercion or deception (gharar). If an agreement is achieved, a sales contract is executed; if not, the transaction is aborted, and the buyer leaves without making a purchase. This practice upholds the Islamic emphasis on mutual consent and ethical conduct in commerce, validating the discount pricing system within the framework of Islamic economics.

REFERENCES


Celik, B. (2020). General Livelihood and Income Sources of Islamic Economics.


Muhammad Saleh, et. al., *Analysis of Price Undercutting in Islamic Law*  
DOI: 10.24090/jimrf.v13i1.11420


*Turkish Journal of Islamic Economics*, 3, 1–1. https://doi.org/10.15238/tujise.2016.3.2.1-11


Muhammad Saleh, et. al., *Analysis of Price Undercutting in Islamic Law…*  
DOI: 10.24090/jimrf.v13i1.11420

69–77.  
https://doi.org/10.21744/ijbem.v6n1.2087

https://doi.org/10.1016/j.jmsy.2010.08.002

https://doi.org/10.1016/j.ijpe.2021.108367


https://doi.org/10.1007/s00170-014-6298-1

https://doi.org/10.59921/icecomb.v2i1.9