

Innovation or Bubble? The Temu Supply Chain Case

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Abstract. This teaching case explores the business model of Temu, a rapidly growing e-commerce platform known for its ultra-low prices. The case delves into how Temu leverages a robust and agile “direct shipping from China” supply chain to maintain its low-cost advantage while ensuring timely delivery of products to international shoppers. Despite its remarkable growth, Temu was also facing substantial financial burden and uncertainties. The case was developed to provide a basis for discussing the latest supply chain strategies for online retailers in consideration of cost, supply chain responsiveness, and risks.

Keywords: operations strategy, supply chain management, logistics network, supply risk management.

1. Introduction

The retail sector is a significant component of the global economy. In the U.S. alone, total retail sales reached approximately US\$7.24 trillion in 2023.¹ Retailers range from supermarkets to e-commerce platforms, each with distinct business models. Traditional brick-and-mortar (B&M) stores focus on bulk procurement and face-to-face sales, while e-commerce, led by companies like Amazon and Alibaba, uses digital platforms and fulfillment networks to deliver directly to consumers. In 2023, Amazon held a dominant 37.6% share of the U.S. e-commerce market, followed by Walmart with 6.4%.²

Founded in 2015, Pinduoduo (PDD) is a Nasdaq listed Chinese online retailer that sells a wide range of products at extra-low prices in China. The company successfully used social campaigns to generate large-volume orders for numerous order-hungry suppliers.³ Despite being criticized for selling

1. <https://www.statista.com/statistics/197576/annual-retail-sales-in-the-us-since-1992/>, accessed on 07/09/2024.

2. <https://www.statista.com/statistics/274255/market-share-of-the-leading-retailers-in-us-e-commerce/>, accessed on 07/12/2024.

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counterfeit products, Pinduoduo managed to achieve 94.0 billion Chinese yuan (US\$14.7 billion) of annual sales in 2021, a 61.7% increase from 2020. As of late 2021, the company's market capitalization reached approximately US\$100 billion.⁴ At a surprising pace, the company had quickly become one of the major players in the Chinese e-commerce industry, alongside Alibaba and JD.com.

To expand internationally and establish a cross-border B-to-C platform in overseas markets, Pinduoduo, later renamed PDD Holdings, launched Temu in Boston in September 2022.⁵ Similar to Pinduoduo, Temu mainly sells goods with unknown brands at extra low prices, positioning itself as a competitor to Amazon, Walmart, and discount retailers like Dollar General. Shortly after its launch, Temu expanded to multiple other countries. As of April 2024, Temu operated in a total of 53 countries, spanning Asia, Europe, North America, Latin America, Africa, and Oceania.⁶

Since its launch, Temu has employed aggressive marketing strategies to attract new clients to its platform. Specifically, Temu invested heavily in online advertising through social media platforms, search engines, and other digital channels. In its first month of operations, Temu burned US\$140 million on marketing expenses.⁷ In the U.S., Super Bowl has historically been one of the most watched television events of the year. Temu's Super Bowl ads in 2023 and 2024 stormed America, attracting tens of millions of consumers to try out the emerging shopping app to "shop like a billionaire"⁸. In addition, Temu also invested in micro-marketing, persuading influencers to recommend its products via social channels like TikTok and YouTube.⁹ As a result, Temu's popularity soared and its app has consistently been one of the most downloaded in the U.S., with 152 million monthly users.⁹

What exactly does Temu sell? Temu actually distinguishes itself in the following offerings:

- **Product range:** Intending to serve the global markets except China, Temu offers a wide variety of products across numerous categories including apparel, beauty care, home and kitchen, electronics, and toys. For instance, there are over 2 million stock keeping units (SKUs) available on Temu's U.S. website alone.^{2,3} Furthermore, most Temu

3. Zhang, A.H., 2024. *High Wire: How China Regulates Big Tech and Governs Its Economy*. Oxford University Press. ISBN 9780197682258.

4. <https://finance.yahoo.com/quote/PDD/>, accessed on 07/11/2024.

5. <https://hbswk.hbs.edu/item/how-shein-and-temu-conquered-fast-fashion-and-forged-a-new-business-model>, accessed on 07/05/2024.

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8. <https://www.businessinsider.com/temu-spends-millions-super-bowl-ads-effort-win-us-users-2024-2>, accessed on 07/06/2024.

9. "How Temu is shaking up the world of online shopping," BBC, 03/18/2024.