

## Internet - China

## Key takeaways of cross-border eC and Temu expert calls

Industry Overview

## Temu recent development trends

We hosted two calls with eCommerce industry experts David and Mr. Wang this week, discussing China's cross-border eCommerce sector and Temu's development trends, growth outlook and strategies. David shares his estimate of US\$16-17b total GMV (gross merchandise value) generated by Temu in 2023, with 4Q23 sales estimated to exceed US\$8b. This is consistent with Mr. Wang's US\$16b Temu GMV estimate. David also indicates that Europe has surpassed US to become the largest sales contributor of Temu, accounting for 40-50% of GMV in 4Q23. While US GMV fell to less than 40% of total, from over 90% in 1Q23. Temu's AOV (average order value) has risen to US\$30-35 after deducting the coupons. David also sees Temu unit economics gradually improving during the year, with loss margin narrowed to -20-30% in 2H. The improvement was primarily contributed by the rising AOV and product mark-ups, despite some quarterly turbulence in fulfillment costs, for instance, sequential increase in 4Q23.

## 2024 Temu growth outlook and new strategic initiatives

David indicates that Temu's GMV target for 2024 is US\$60b, while Mr. Wang suggests a more conservative target of US\$30-40b. Despite a gap between sales target estimates, both experts expect Temu to continue robust expansion this year, laying out strategic initiatives include: 1) expand its global presence on top of the existing 48 countries and regions, with a focus of full coverage in Middle East, Latin America, and Southeast Asia; 2) introduce ocean freight shipping and overseas warehousing to reduce shipping costs (eg. Japan and Korea which accounted for 5% of orders in the past month) and expand product categories (eg. heavy items to go through warehouses in Mexico); 3) launch a new semi-consignment model, which is expected to tap into broader supply/merchant base, reduce fulfillment capacity constraint and costs, and diversify product offerings and delivery time options; 4) continue aggressive S&M investments to acquire users in the new markets and improve consumer mindshare, repurchase rate and AOV in the more mature markets, such as Super Bowl ads in US.

## US risks and the impact of potential Trump Tariffs

David pointed out that there was a big strategic pivot of Temu to diversify country exposure since mid-2023 on a rise of regulatory concerns on China eC platforms in US. As of end-2023, US sales contribution has lowered to 50% below as a result of Temu's aggressive geographic expansion and controlled budgets allocated to US. Key topics could potentially trigger changes in overseas countries' trade policies include fair trade, data security and ESG etc. Regarding the most discussed risks of changes in US De Minimis exemption and potential Trump Tariffs, David sees relatively low chance of official implementation and expects higher AOV and repurchase rate to offset most incremental costs due to tariffs. While Mr. Wang highlights a higher risk but believes the impact would only be disruptive in the first couple months, then turning less significant as platforms and merchants have prepared back-up solutions such as moving fulfillment centers and part of supply-chains to Vietnam/Mexico to reroute and reexport products.

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**Joyce Ju >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 3371  
[joyce.ju@bofa.com](mailto:joyce.ju@bofa.com)

**Miranda Zhuang, CFA >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 2879  
[miranda.zhuang@bofa.com](mailto:miranda.zhuang@bofa.com)

**Lei Zhang >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 3363  
[lei.zhang22@bofa.com](mailto:lei.zhang22@bofa.com)

**Janet Yang >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 2939  
[janet.yang@bofa.com](mailto:janet.yang@bofa.com)

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## Temu development in US

According to David, Temu exhibits higher overlap with consumers on platforms such as Target, Five Below, Dollar General, and Dollar Tree, and overlap with major platforms like Amazons could potentially increase with the introduction of the semi-consignment model. Temu's DAU (daily active users) in US has been largely stable, while the proportion of new customers declined following the compliance issues, which also leads to a relatively higher AOV in US market. Temu has outlined initiatives to explore the impact of various pricing strategies and market responses, such as benchmark pricing rates against Amazon's 60%/70%/80% discount and testing higher free shipping thresholds, to further elevate AOV and pricing rates. The expert expects an improved AOV and unit economics in US to support Temu's stepped up investments in other regions in 2024.

## Competition with Shein, TikTok and AliExpress

David also mentioned that, among major competitors, Temu stands out with low price, aggressive global expansion strategy, and diverse product portfolio focusing on essential products. Our expert didn't see head to head competition between Temu and major platforms: 1) **Shein** has specializing in apparel/fashion categories, accounting for nearly 2/3 of its SKU, and it need time for Shein to expand category breadth; 2) **TikTok**'s focus on directing traffic towards livestreaming and short video eC has set it apart from Temu with different product positioning and large price gap; and 3) **AliExpress** is recognized by the expert for having solid business model, while the company has not been as committed as other platforms in terms of expansion and resources allocation.

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