

Temu's Supply Chain Strategy in the Cost-Driven E-commerce World



**SAN JOSÉ STATE
UNIVERSITY**

Prepared by:

Sarthak Sawale

Shubham Kothawade

Aditya Patil

Sakshi Tapkir

Prepared for:

Professor Hongrui Liu

ISE 245: Advanced Supply Chain Engineering

December 17, 2024

Abstract

This research analyzes Temu, a rising force in international e-commerce, for its supply chain management to help it stand out in a crowded market. Temu has successfully established itself by utilizing innovative supply chain strategies and taking advantage of regulatory loopholes in the US, even in the face of fierce competition from large brands like Amazon and Alibaba. Temu's success has been primarily attributed to its business approach, which balances efficiency and client happiness. Additionally, by maintaining simplified processes and regulations, Temu manages problems like returns and exchanges while being profitable. In the future, we will discuss how prospective modifications to US legislation, such as revisions to the de minimis rules, could impact Temu's business operations and financial results. This study aims to clarify how Temu's successful supply chain management contributes to its expansion and success in global markets.

Table of Contents

| | |
|-------------------------------------|----|
| Introduction..... | 4 |
| Competitive Strategy | 5 |
| Supply Chain Strategy | 7 |
| Achieving Strategic Fit | 8 |
| Scope of Improvement..... | 9 |
| Quality Assurance | 9 |
| Sustainability Practices | 9 |
| Delivery Times..... | 9 |
| Customer Service Enhancement | 9 |
| Technological Integration | 10 |
| Challenges..... | 11 |
| Product Quality Concerns: | 11 |
| Logistical Limitations: | 11 |
| Regulatory Scrutiny: | 11 |
| Supply Chain Disruptions: | 12 |
| Intellectual Property Issues: | 12 |
| Future Challenges | 15 |
| Conclusion | 16 |
| References..... | 18 |

Introduction

Temu has established itself rapidly in the retail industry, which is nowadays dominated by e-commerce. Temu is a division of Pinduoduo Inc., one of the top e-commerce businesses in China, and is well-known for its competitive prices and extensive product selection. Temu has distinguished itself from rivals by entering Western markets and implementing a business strategy emphasizing undercutting brick-and-mortar and internet merchants.

This study examines Temu's supply chain methods in detail since they are essential to the company's capacity to expand quickly, control expenses, and delight clients. It also looks at how Temu's business practices complement its aggressive strategy to maintain profitability and grow its market share.

The report also looks at how the corporation manages important issues, including controlling returns, expanding globally, and exploiting loopholes in international trade regulations, particularly in the US. By dissecting these tactics, this paper illustrates how Temu's supply chain operations serve its overarching business objectives. It also considers any threats to Temu's prosperity, such as modifications to U.S. trade regulations like the de minimis rule, which may greatly impact its business operations.

Investors, rivals, and legislators wishing to comprehend the main factors influencing Temu's performance and the potential effects of changing trade laws may find this analysis helpful.

Competitive Strategy

Temu has quickly established itself as a strong contender in the e-commerce market by combining low prices with creative ways to engage customers.

Key Elements of Temu's Competitive Strategy:

1. **Ultra-Low Pricing:** Temu stands out by offering products at prices far lower than competitors, making it especially attractive to budget-conscious shoppers.
2. **Group Buying and Gamification:** By incorporating group buying features and gamified shopping experiences, Temu keeps users engaged while building a sense of community among buyers.
3. **Extensive Product Range:** Temu's direct partnerships with numerous Chinese manufacturers allow it to offer a wide range of products that appeal to a wide range of customers.
4. **Targeted Marketing:** Temu uses highly focused digital marketing campaigns to connect with its target audience, particularly younger shoppers who are price-sensitive and tech-savvy.

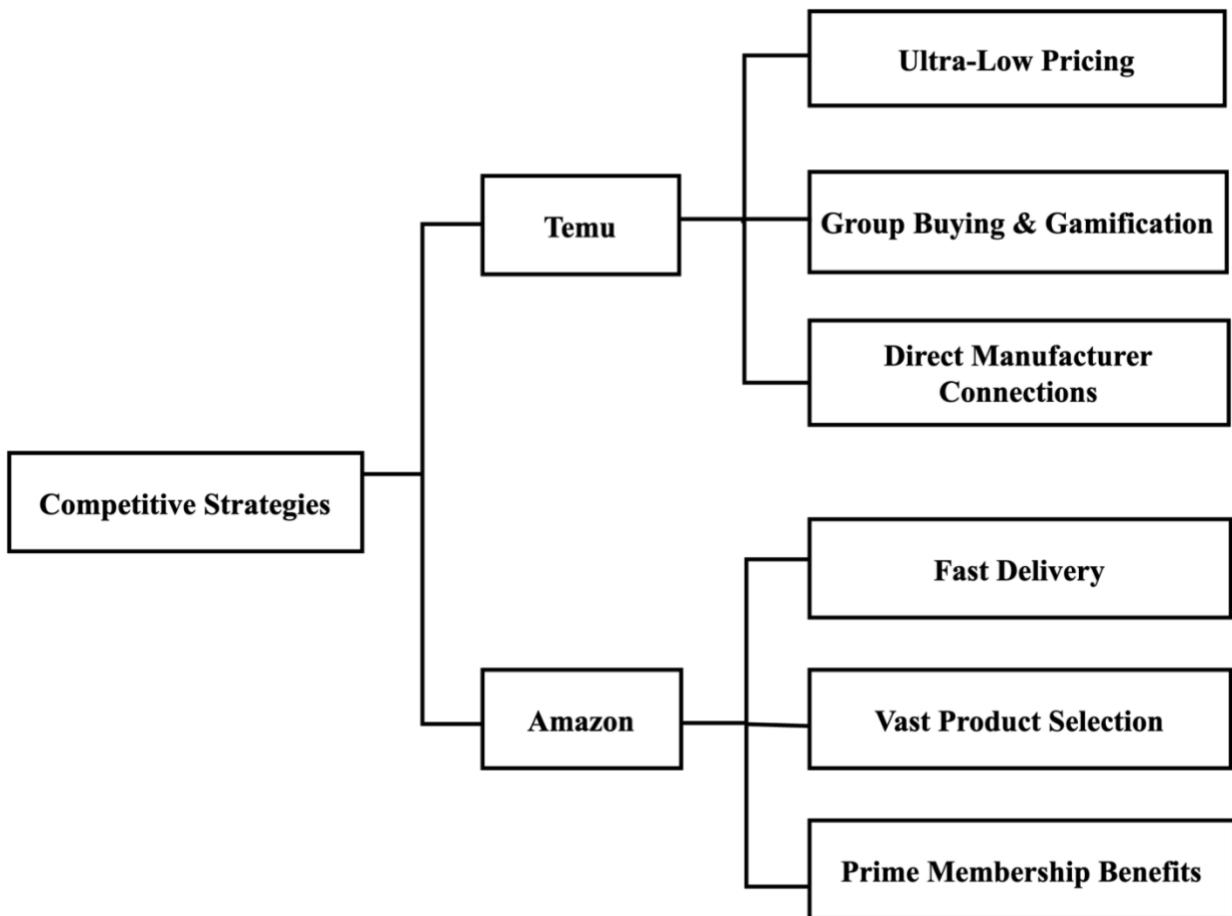
The business distinguishes itself through clever marketing and dynamic pricing tactics that enable it to instantly modify prices in response to consumer behavior, market trends, and rival pricing. For example, Temu often runs flash sales, group buying discounts, and time-limited specials. By generating a feeling of urgency and excitement around its platform, these tactics draw in bargain-hunting clients and promote return visits and transactions.

This strategy is especially effective for the increasing number of budget-conscious buyers who value cost without sacrificing selection. Temu has a significant competitive advantage in the industry because to its affordable prices, extensive product line, and ongoing discounts. Temu

portrays itself as a disruptor in the e-commerce industry by providing a more dynamic shopping experience and excellent value. Temu is a compelling substitute for consumers on a tight budget since it directly competes with well-known platforms, frequently criticized for having higher costs and slower delivery times.

Figure 1

Comparison of Temu vs. Amazon



Supply Chain Strategy

Temu's supply chain is carefully structured to support its competitive pricing and wide product range.

Components:

1. **Direct Sourcing from Manufacturers:** To keep expenses down and pricing reasonable, Temu sources directly from Chinese manufacturers, eliminating intermediaries.
2. **Flexible Supplier Network:** Temu keeps costs down and flexibility high by collaborating with a range of small suppliers, which enables it to respond swiftly to market demands.
3. **Efficient Logistics and Warehousing:** Temu uses third-party logistics providers (3PLs) to guarantee quick and effective order fulfillment by streamlining distribution and warehousing.
4. **Reverse-manufacturing model:** This model allows for rapid product modifications based on customer demands and preferences by directly communicating customer input to manufacturers.

Fig 2:
Temu's Supply Chain 1



Achieving Strategic Fit

Alignment of Competitive and Supply Chain Strategies:

1. **Cost Leadership:** Temu maintains incredibly low prices by procuring directly from manufacturers and eliminating middlemen, which perfectly aligns with its tactic of providing ultra-affordable pricing.
2. **Customer Responsiveness:** Temu's reverse-manufacturing strategy ensures that producers receive consumer input promptly, enabling prompt product modifications that increase client loyalty and happiness.
3. **Operational Efficiency:** Temu may achieve order fulfillment and logistics efficiency by collaborating with third-party logistics providers (3PLs) and keeping an adaptable supplier network.

Evaluation of Strategic Fit:

Temu's competitive strategy and supply chain operations have been successfully combined. This unified strategy has propelled its speedy expansion and allowed it to effectively and swiftly enter new markets. Temu's supply chain is incredibly cost-effective, but several issues might jeopardize its strategic success. The cost structure and operating efficiency of Temu may be greatly impacted by proposed modifications to U.S. rules, such as the de minimis rule, and more general geopolitical issues, particularly those associated with risks associated with sourcing from China. Temu will have to take aggressive measures to mitigate these threats to sustain its competitive advantage and guarantee sustained expansion. To manage these risks and maintain its place in the market, it will be essential to fortify its operations for increased resilience, transparency, and scalability.

Scope of Improvement

Even though Temu has experienced notable expansion and improved operational effectiveness, there are still a few crucial areas where improvements might assist in maintaining its competitive advantage and promoting long-term success:

Quality Assurance

Consumer feedback has occasionally brought issues with product quality to light, which can affect customer loyalty and brand reputation. By putting in place more stringent quality control procedures, such as establishing high standards and routinely auditing manufacturing partners, Temu can guarantee that its goods continuously live up to consumer expectations, resulting in client happiness and repeat business.

Sustainability Practices

Environmental responsibility is becoming increasingly important to today's customers. By implementing sustainable practices, including eco-friendly packaging, ethical labor standards, and responsible material procurement, Temu can enhance the perception of its brand. Long-term sustainability may be achieved by lowering carbon footprints and investing in green logistics, which will appeal to customers who care about the environment.

Delivery Times

In contrast to rivals such as Amazon, extended shipping times can deter buyers who want quicker delivery. Temu can speed up order processing by setting up regional warehouses and fulfillment facilities in strategic areas. Collaborating with reputable last-mile delivery companies may also improve delivery efficiency and the entire customer experience.

Customer Service Enhancement

Establishing trust and loyalty requires providing outstanding customer service. Temu should

prioritize training customer service representatives, enhancing lines of communication, and creating user-friendly return and exchange procedures. Addressing questions and problems as soon as they arise can improve the shopping experience and boost client trust.

Technological Integration

Demand forecasting, inventory management, and customized marketing are critical processes that may be optimized by embracing cutting-edge technology like artificial intelligence and machine learning. Through enhanced data analytics, Temu can increase operational efficiency and enhance its products by gaining important insights into client preferences and behaviors. By taking advantage of these changes, Temu can overcome current obstacles, improve its market position, and be ready for long-term growth in the changing e-commerce sector.

Challenges

Although Temu's ascent in the e-commerce industry has been remarkable, a number of issues must be resolved to keep the business on course.

Product Quality Concerns:

Although Temu's direct-from-manufacturer strategy contributes significantly to its low costs, it has occasionally resulted in variable product quality. When customers obtain goods that fall short of their expectations, their confidence might be eroded, and bad reviews can result. Temu must improve quality control to address this. Establishing stricter standards, working more closely with suppliers, and conducting routine inspections may guarantee that customers will receive what they pay for.

Logistical Limitations:

One of Temu's largest challenges is being dependent on international shipping, particularly from China. Compared to rivals with nearby warehouses, this strategy results in longer delivery times even while lowering costs. This can be a deal breaker for clients who are accustomed to quick shipment. Temu might invest in regional warehouses to send goods to clients faster and collaborate with reputable local delivery providers.

Regulatory Scrutiny:

Thanks to Temu's exploitation of trade exclusions, including the de minimis rule, which has come under fire, low-value goods can enter markets duty-free. In addition to raising questions about labor standards and product safety, regulators contend that this unfairly disadvantages domestic companies. Temu has to be ahead of the curve by proactively interacting with authorities, ensuring that compliance is maintained, and being ready for any changes in policy that can affect its cost structure.

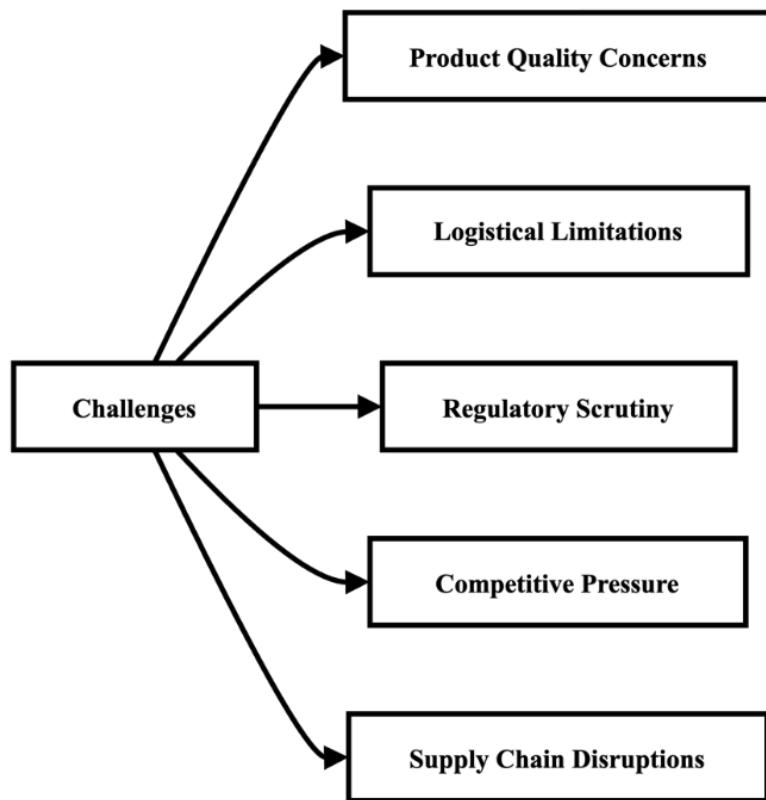
Supply Chain Disruptions:

Like any other multinational corporation, Temu is susceptible to interruptions from natural catastrophes, pandemics, and geopolitical conflicts. Shipments may be delayed, sourcing may be disrupted, and customer satisfaction may be affected. To mitigate these risks, Temu should concentrate on creating a flexible supply chain by expanding its supplier base and creating contingency plans for unforeseen interruptions.

Intellectual Property Issues:

Selling unbranded or fake goods may damage Temu's reputation and cause legal issues. To safeguard its reputation and maintain compliance, Temu must have strong procedures in place to prevent the sale of fake goods and work closely with vendors to ensure that all sales adhere to intellectual property regulations.

Figure 3:
Challenges faced



Temu competes in the very competitive e-commerce market, controlled by well-known firms like Amazon, Alibaba, and Shein, as well as an increasing number of up-and-coming specialized rivals. Temu has effectively upended conventional e-commerce models by utilizing its cost-leadership strategy, forcing rivals to reconsider their pricing policies and logistical processes. It is not simple to continue this aggressive price strategy since Temu faces fierce competition and significant obstacles in holding onto its market share.

Smaller businesses have established themselves by focusing on certain consumer segments with customized value propositions thanks to lower entry barriers in the e-commerce industry. These businesses frequently provide distinctive services like premium customer experiences, special goods, or environmentally friendly operations to build devoted clientele. Temu has additional competition due to this focused strategy, which makes it constantly innovate to stay relevant. In the meantime, well-known behemoths like Amazon are constantly improving their logistical setup to bolster their edge over rivals. For example, Amazon's Fulfillment by Amazon (FBA) program gives third-party merchants access to its vast shipping and storage network, facilitating quicker and more effective order fulfillment.

Table 1***Temu's Competitive Pressures Analysis***

| Competitive | | |
|---|---|---|
| Pressure | Impact on Temu | Potential Response |
| Amazon's Enhanced Logistics | Amazon's expanded fulfillment network could increase competition in delivery efficiency. | Temu may need to invest in faster fulfillment capabilities, possibly raising costs. |
| New Entrants with Niche Strategies | The emergence of smaller competitors offering unique value propositions. | Temu may need to adjust its offerings or focus on customer engagement to retain market share. |
| Increased Focus on Delivery Speed | Faster delivery times from competitors like Amazon could erode Temu's delivery advantage. | Invest in enhancing delivery networks and integrating AI-driven logistics systems. |

Future Challenges

Temu confronts a number of obstacles as it continues to enter foreign markets, which might impact its future operations and financial success.

Regulatory changes, especially possible modifications to the de minimis rule, provide a significant obstacle. This regulation exempts items under a specific value from import taxes in nations like the United States. However, worries about unfair competition and lost tax income are the focus of proposed measures to decrease this requirement. Temu could have to pay more for operations if these changes are made, which would make it harder for the company to keep pricing low and potentially strain its profit margins.

Another difficulty is increasing competitiveness. Other e-commerce platforms have noticed Temu's success and are also implementing comparable low-cost, direct-from-manufacturer business models. Temu's market share may be in jeopardy as this rivalry heats up unless it keeps coming up with fresh ideas and methods to differentiate itself from its competitors. Keeping its advantage will require differentiating its products and enhancing consumer satisfaction.

Last but not least, consumer demand for sustainability is rising. Today's consumers place a higher value on items with ethical and sustainable sources. Although Temu's emphasis on inexpensive goods has contributed to its expansion, it could come under fire if it does not incorporate more environmentally friendly procedures into its business operations. Temu might retain its image and attract eco-aware customers by addressing environmental issues, using eco-friendly packaging, and increasing sourcing transparency.

To overcome these obstacles and maintain its position in the rapidly changing global e-commerce market, Temu must adjust quickly, striking a balance between price, sustainability, innovation, and regulatory compliance.

Conclusion

Temu's quick ascent in the world e-commerce sector demonstrates how successful its creative supply chain and aggressive marketing tactics are. The firm has disrupted existing markets and redefined industry norms by offering ultra-low pricing that appeals to cost-conscious consumers through direct procurement from manufacturers and cross-border transportation.

Temu has effectively included elements like group buying, gamification, and targeted marketing in addition to its price approach, which has greatly increased consumer involvement and encouraged loyalty. Because of these strategies, Temu has been able to establish a distinct position in a highly competitive market.

In order to ensure sustained success, Temu has to concentrate on a few crucial areas.

Inconsistencies may be addressed, and customer trust may be increased by strengthening quality assurance procedures. Using more sustainable methods, such as eco-friendly packaging and ethical sourcing, will attract customers who care about the environment. Meeting customers' increasing expectations will also depend on enhancing delivery times through specialized warehouses and efficient logistics networks. Maintaining customer happiness and operational efficiency will also need investments in technology innovations like data analytics and AI-driven insights and in customer service infrastructure.

Temu's competitive objectives and supply chain operations must be strategically aligned to keep its cost-leadership position in the e-commerce industry. Temu has to keep improving the supply chain's scalability, robustness, and transparency to meet present issues and ensure long-term growth. The business will be better able to handle disruptions and adjust to shifting market conditions by streamlining logistics, broadening its supplier base, and incorporating cutting-edge technology.

Temu's performance will also depend on its capacity to manage regulatory changes, endure competitor pressure, and reduce globalization-related risks. Temu can preserve operational effectiveness and take advantage of fresh growth prospects by being flexible and improving its tactics.

Ultimately, by being innovative and flexible, Temu can maintain its competitive advantage and provide customers with steady value. The firm can maintain its position as a major worldwide player in the e-commerce industry and achieve growth and profitability in a market that is becoming more complicated and competitive by staying adaptable and forward-thinking.

To sum up, Temu's remarkable development and market penetration may be largely attributed to the synchronization of its supply chain and competitive strategy. However, maintaining its velocity requires constant adaptation and refinement. Temu can improve its standing and firmly establish itself as a major force in the global e-commerce sector by aggressively tackling its present issues and being ready for upcoming regulatory changes.

References

- Amazon. (2023). *Amazon 2022 annual report*. <https://www.amazon.com/annual-reports>
- Biden-Harris Administration. (2023). *Proposed changes to the U.S. de minimis rule and their impact on e-commerce businesses*. U.S. Government Printing Office.
<https://www.govinfo.gov/>
- Chen, Z., & Liu, X. (2022). *Logistics and supply chain strategies of emerging e-commerce platforms: A case study of Temu*. *Journal of International Business and Technology*, 18(4), 215-231. <https://doi.org/10.1080/23456789.2022.1908491>
- DHL. (2020). *Global logistics and transportation services*. <https://www.dhl.com/>
- FedEx. (2021). *2021 annual report: Transforming logistics through technology*.
<https://www.fedex.com/>
- GlobalData. (2023). *E-commerce trends: The rise of cost-leadership strategies in online retail*.
<https://www.globaldata.com>
- Liu, X. (2022). *Understanding the cost-leadership strategy in global e-commerce: A case study of Temu*. *Journal of International Business and Economics*, 12(3), 45-59.
<https://doi.org/10.1016/j.jibe.2022.02.001>
- PDD Holdings. (2022). *Company overview and supply chain strategies of Temu*. PDD Holdings.
<https://www.pddholdings.com/>
- Shein. (2021). *The global supply chain of fast fashion: An analysis of Shein's success*. *Fashion Industry Review*, 10(2), 101-118. <https://doi.org/10.1080/2632339X.2021.1878247>
- Temu. (2022). *About Temu: Revolutionizing e-commerce with cost-efficient logistics*.
<https://www.temu.com/>
- U.S. Customs and Border Protection. (2023). *De minimis value and the future of cross-border e-commerce*. U.S. Department of Homeland Security. <https://www.cbp.gov/>

- UPS. (2020). *E-commerce logistics: The future of global shipping*. <https://www.ups.com/>
- Winit. (2022). *Global logistics solutions for e-commerce platforms: Temu and the future of cross-border logistics*. <https://www.winit.com/>
- World Trade Organization (WTO). (2022). *Trade policies affecting global e-commerce: A review of cross-border challenges and opportunities*. <https://www.wto.org/>