

# A Business Analysis of Temu: The Rock-Bottom Pricing Strategy and Its Associated Risks

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## Abstract:

Leveraging China's vast manufacturing base, customer-to-manufacturer direct production (C2M), consignment inventory, and a factory-to-consumer operating model, Temu achieves exceptionally low prices. This paper analyzes the business model, growth drivers, and risks of Temu, a rapidly expanding cross-border e-commerce platform. The paper also highlights how a user growth flywheel, driven by targeted marketing, amplifies economies of scale. However, its aggressive price competition strategy has given rise to structural vulnerabilities, including supply chain instability, inconsistent product quality, and heavy after-sales burdens. Simultaneously, the platform faces intensifying regulatory scrutiny from the United States and the European Union and fierce market competition. Based on these findings, the paper offers strategic suggestions for Temu, aiming to transition it from a price-driven model to a value-driven growth model. Specific actions include strengthening supplier partnerships, enhancing quality control, improving compliance capabilities, and building long-term brand loyalty to ensure sustainability in global markets.

**Keywords:** Temu, cross-border e-commerce, rock-bottom pricing strategy, supply chain sustainability

## 1. Introduction

Temu is a rapidly growing cross-border e-commerce platform that has disrupted the global retail market with its low prices and extensive product range. Since its launch in 2022, the platform has applied a unique business model combining customer-to-manufacturer direct production (C2M), reverse auctions, consignment inventory, and a factory-to-consumer operating model. These mechanisms enable Temu

to significantly reduce production and operational costs while achieving economies of scale. Simultaneously, the demand side amplifies economies of scale through personalized recommendations and precision marketing powered by big data and algorithms. Consequently, Temu has experienced explosive growth in its user base and transaction volume, becoming the most downloaded app in the United States in 2023 [1]. However, this rapid expansion also exposes Temu to

a series of structural vulnerabilities and operational risks that could threaten its long-term sustainability. This paper will first analyze the reasons behind Temu's rock-bottom prices mechanisms. It will then examine the Temu's internal and external risks before offering strategic recommendations to enhance its long-term sustainability.

## 2. The reasons behind Temu's rock-bottom prices

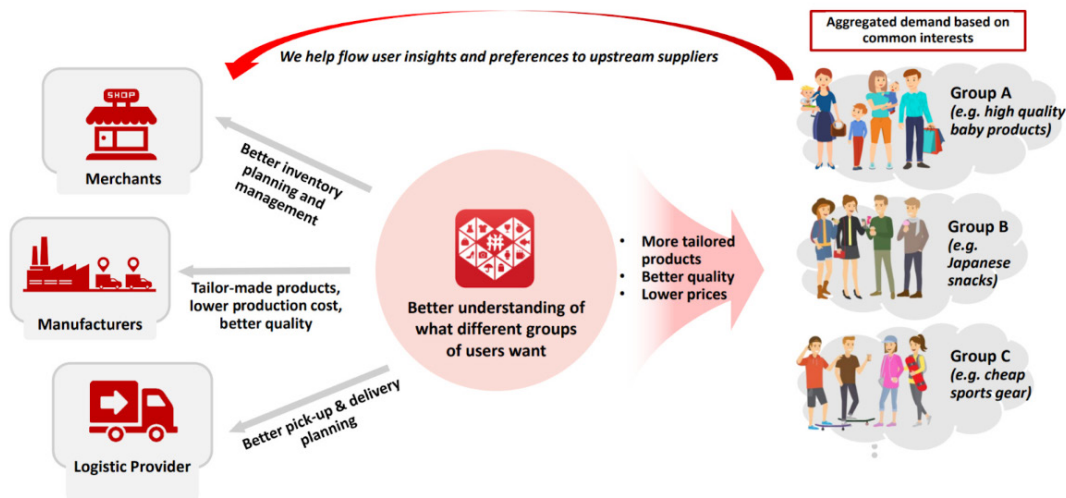
Temu maintains rock-bottom prices driven by multiple structural factors. This section examines the platform's cost advantages from three perspectives: on the supply side, the platform minimizes production costs through a factory-to-consumer model and a reverse auction mechanism; on the platform side, its advantages in operational structure and tariff policies have significantly reduced operating costs; on the demand side, Temu leverages big data and algorithms to implement precision marketing,

which significantly amplifies economies of scale.

### 2.1 Supply Side: Reduce Production Costs

Firstly, by leveraging the C2M (Customer-to-Manufacturer) model, Temu directly connects end consumers to upstream factories through direct digital connections. As shown in Figure 1, this model shortens the information pipeline and helps manufacturers better understand consumer needs [2] [3]. By accurately gauging consumer preferences, manufacturers can produce in line with sales demand, and this precision manufacturing helps reduce unsold inventory and excessive stockpiling. Simultaneously, concentrated demand creates economies of scale, as factories can mass-produce popular items. This translates to cheaper raw material procurement, higher production line efficiency, and lower unit costs. The combination of these factors significantly reduces overall production costs [1].

#### From "how much *can* we produce" to "how much *should* we produce"



**Figure 1: From “how much can we produce” to “how much should we produce”.**

Secondly, Temu applies a reverse auction mechanism, enabling multiple manufacturers to compete for the same order, with the lowest-cost factory ultimately securing the production opportunity. Furthermore, once a new factory enters the market and is able to offer similar products at a lower price, Temu will replace suppliers that charge higher prices. This bidding model weakens suppliers' bargaining power, further squeezing prices [4].

By combining the C2M model with reverse auctions, Temu not only determines what to produce and in what quantities but also identifies which manufacturers can produce at the lowest cost.

### 2.2 Platform Side: Reduce Operational Costs

On the platform side, Temu operates a consigned inventory model. Manufacturers ship goods to Pinduoduo's warehouses in China but retain ownership until the items are sold. Temu avoids upfront procurement or inventory risks by settling payments to manufacturers only after products are sold [5]. This arrangement significantly reduces the platform's capital tied up and financial risks while helping manufacturers expand their products' market exposure.

Besides, Temu applies a factory-to-consumer operating model, connecting consumers directly with manufacturers and bypassing multiple layers of intermediaries, including physical stores and their markup costs. By reducing

transportation, warehousing, and handling during the distribution process, Temu significantly cuts overall operating expenses, streamlining the supply chain for greater efficiency. This model not only enhances price competitiveness, allowing the platform to sell goods to consumers at prices far below traditional retail, but also accelerates inventory turnover and improves responsiveness to market demand shifts. These efficiencies provide the foundation for Temu's rapid expansion.

In cross-border transactions, Temu fully benefits from tariff policies. For instance, the United States exempts goods valued below \$800 from tariffs according to Section 321 of the Smoot-Hawley Tariff Act of 1930 [6]. While the European Union implements a similar policy for items under €150 according to Article 23 of Regulation 1186/2009 [7]. Since most of Temu's products are priced well below these thresholds, the platform can ship duty-free while remaining compliant, significantly reducing cross-border costs and this has further reduced retail prices.

Overall, the consignment inventory and factory-to-consumer operating model, combined with policy advantages, has significantly reduced the platform's operating costs, providing substantial support for its rock-bottom price strategy.

### 2.3 Demand Side: Amplify Economies of Scale

On the demand side, Temu leverages big data and algorithms to implement precision marketing, which significantly amplifies economies of scale. By analyzing users' browsing history and purchasing behavior, the platform builds a personalized recommendation system that pushes potentially interesting products directly to users. Simultaneously, Temu combines low-price strategies, group-buying discounts, and gamified shopping mechanisms to continuously enhance user purchase conversion rates and repeat purchase rates. Research has shown that consumers' online clicking intention can be increased by their immersive shopping experiences and acceptance of AI-driven personalized recommendations. E-commerce systems can therefore use this to increase shopping conversion rates [8].

Besides, Temu rapidly built its brand reputation through massive investments and highly targeted marketing strategies. Its \$14 million Super Bowl ad campaign in 2023 drove a tenfold surge in brand searches within the U.S., propelling downloads to 13.9 million by June and making it the most downloaded free app in America that year. Simultaneously, Temu partnered with influencers on platforms like Instagram, TikTok, and YouTube, boosting video views by approximately 50% and increasing product click-through rates by 40%. Its catchy slogan, "Shop Like a Billionaire," combined with low pricing, further cemented consumer recognition. Content marketing also played a crucial role. For instance, short unboxing videos

on TikTok paired with discount codes boosted views by 50% and conversion rates by 25% [9].

Through these mechanisms, Temu's user base has expanded rapidly, driving growth in platform data. This, in turn, enhances the accuracy of its recommendation algorithms, creating a user growth flywheel effect: more users generate more data, which in turn leads to more precise recommendations and higher conversion rates. Throughout this process, the platform's fixed costs are spread across a larger transaction volume, amplifying significant economies of scale. This rapid growth in demand and efficient conversion provide robust support for Temu's low-price strategy.

## 3. Risk Analysis of Temu

### 3.1 Internal Risk -

#### 3.1.1 Supply Chain Sustainability Risk

Temu's core competitive advantage lies in leveraging China's vast supply chain system to achieve rock-bottom prices and an enormous product range. However, this model also carries significant risks. The platform maintains its low-price appeal to consumers through intense price competition that continuously squeezes supplier profit margins. This approach means many small and medium-sized suppliers may face long-term low profitability or even losses, ultimately forcing them out of the partnership. For instance, according to the Financial Times, a Guangzhou merchant received up to 30,000 to 50,000 daily orders in the early months of Temu's operation; today, that number has decreased to just 3,000. They attribute this to the strategy adopted by the platform to attract more suppliers, which is to encourage these suppliers to compete, thereby driving down prices. Several other suppliers also expressed uncertainty about sales performance on the Temu platform, as the platform determines which products are promoted most based on the lowest price or those that have recently joined the platform, further increasing uncertainty for suppliers [10].

In addition, suppliers face punitive measures: the platform may impose fines even if a customer complaint is not the seller's fault. One anonymous seller said, "If one item in a batch is defective, they will fine the entire batch." Dozens of suppliers protested at Temu's Guangzhou office, presenting evidence of 279 fines totaling 114 million RMB (approximately 16 million USD) [10]. Such practices are increasingly frustrating and alienating numerous small and medium-sized suppliers, undermining their willingness to continue working with the platform. If large numbers of suppliers choose to exit, it will ultimately threaten the long-term sustainability of Temu's supply chain.

#### 3.1.2 Quality and After Sales Issues

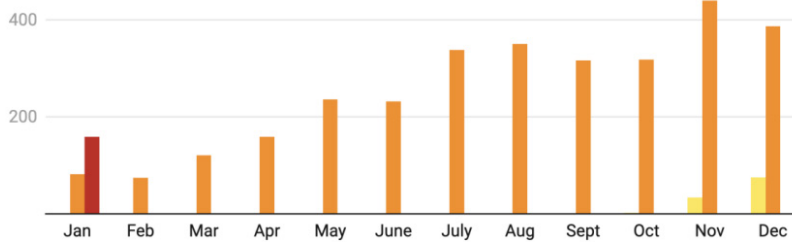
To maintain its low-price strategy, Temu sets relatively low entry barriers for suppliers, resulting in inconsistent product quality that often triggers high return rates and user complaints. Simultaneously, building a cross-border after-sales system is challenging and costly; the operational workload associated with dispute resolution and logistics-related returns and exchanges continues to grow. If the platform fails to improve quality regulation and after-sales service mechanisms while expanding rapidly,

consumer trust and repurchase willingness will significantly decline. This damages brand reputation, further increases customer acquisition costs, and creates a pernicious cycle of “low prices—low quality—customer attrition.” As shown in Figures 2 and 3, Temu has received 3,323 consumer complaints since it launched operations in September 2022. California leads with the highest number of consumer complaints at 352, followed by New York with 259 [11].

### Temu Complaints

Received by the FTC between October 2022 and January 2024

2022 2023 2024



3,323 complaints received since Temu began operating in Sept 2022

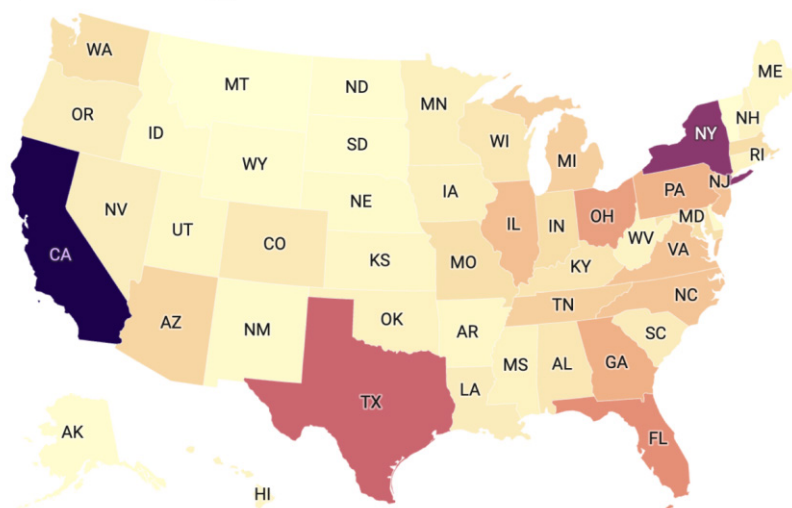
Chart: Carol Thompson/CBS Chicago • Source: Federal Trade Commission (FTC) • Created with Datawrapper

Figure 2: Temu complaints.

### Temu Complaints by State

# of Complaints in each state from Oct 2022 through Jan 2024

1 352



Map: Carol Thompson/CBS Chicago • Source: Federal Trade Commission • Created with Datawrapper

Figure 3: Temu complaints by state.



## 3.2 External Risks

### 3.2.1 Regulatory and Policy Risks

Temu faces increasingly severe international regulatory and policy risks. In the United States, Temu previously relied on the de minimis duty-free policy to ship goods valued below \$800 directly to consumers without tariffs, significantly reducing cross-border fulfillment costs. However, the U.S. government officially suspended the de minimis duty-free treatment for all countries in August 2025 [12]. This move means Temu must now pay substantial tariffs on every order, directly eroding its low-price advantage. It may also force the platform to restructure its logistics system and raise product pricing, thereby reducing its price competitiveness in the U.S. market.

In the European Union, Temu faces increasingly stringent regulation. In November 2024, Temu was alerted by the European Commission and the Consumer Protection Cooperation (CPC) Network of national consumer authorities to certain practices on the platform that violate EU consumer law. The warning cited multiple suspected violations of EU consumer law, including false discounts, misleading information, forced gamification, and hidden contact details, demanding immediate corrective action [13]. Concurrently, the EU initiated formal legal proceedings against Temu under the Digital Services Act (DSA) framework. Following the implementation of the General Product Safety Regulation (GPSR), Temu will be further required to establish an economic operator within the EU to ensure product safety compliance [13]. These policy developments not only heighten Temu's compliance and legal risks but may also inflate its operational costs and slow its expansion pace.

### 3.2.2 Market Competition Risk

The cross-border e-commerce sector where Temu operates is fiercely competitive. While its core "rock-bottom price" strategy rapidly attracted users in the short term, this strategy is highly imitable and lacks long-term competitive barriers. Competitors like Shein, Amazon, and AliExpress possess more mature global logistics networks, stable supply chain relationships, and strong brand recognition. They can swiftly replicate Temu's low-price and promotional models, leveraging their user loyalty to counterattack. Furthermore, Temu's heavy reliance on subsidies and advertising investments to drive sales growth leaves it vulnerable. Once competitors intensify market share battles through price wars or accelerated delivery, Temu risks being drawn into a vicious cycle of high costs and low returns. This would continuously squeeze its profit margins, making it more difficult for Temu to establish sustainable competitive advantages.

## 4. Conclusion

In summary, Temu's success is driven by its low-cost business model and efficient user acquisition strategy; however, its sustainability is threatened by multiple internal and external risks. Internally, its bidding and price-cutting approach forces small and medium-sized suppliers into losses and market exit, while low supplier entry barriers lead to inconsistent product quality and heavy after-sales burdens. Externally, Temu faces heightened regulatory scrutiny and fierce competition from established rivals like Shein, Amazon, and AliExpress.

To address these challenges, Temu should transition from a purely low-price competition model to a value-based differentiation strategy. This includes strengthening partnerships with suppliers through fairer pricing and incentive mechanisms to ensure supply chain stability, while implementing stricter quality control and after-sales service systems to build consumer trust. Additionally, Temu should invest in localized operations, establish compliance teams to navigate evolving regulations, and gradually shift its marketing focus from heavy subsidies toward building brand loyalty and enhancing user experience. These initiatives will reduce its dependence on cost-cutting approaches and assist Temu in building sustainable competitive advantages in the global marketplace.

A key limitation of this study is its sole reliance on secondary data. Future research could apply primary data collection methods to explore Temu's evolving business model and long-term competitiveness in more depth.

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