

Over the last fifteen to twenty years, eCommerce has grown to be a factor in recreational fishing retail, as it has in just about every retail market there is, and recently, a newcomer has entered the eCommerce space of many industries, including recreational fishing, leaving many curious about their operations. The Chinese-based company Temu provides an extensive catalog of products, including fishing tackle and affiliated gear, at discount prices, and many

only Amazon. Just one year after its launch, Temu had more than 100 million active users in the U.S., and enrollment jumped from 5.8 million U.S. users in October 2022 to 104.2 million by April 2023. Temu registered more than 167 million active users worldwide by the first quarter of 2024. Temu's U.S. sales topped \$5 billion in 2023. Combining Pinduoduo and Temu, PDD's value in 2023 was estimated to be \$185 billion. In April 2023, Temu launched in the UK. While its primary

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By Sid Dobrin

retailers have been asking about the impact Temu is having in our industry. While Southwick Associates' 2024 Trade Insights and Market Report shows that only 10% of freshwater and saltwater tackle sales come through online orders, the industry needs to understand Temu's approach as it will inevitably influence consumer purchasing habits. With its marketing motto, "shop like a billionaire," and its "lightning deals" sales, Temu draws more customers' attention, increasing its relevance to the industry.

In September 2022, PDD Holdings, a Chinese e-commerce giant that established its success through the Pinduoduo app with more than 900 million active users, becoming the leading e-commerce site in China, introduced Temu to the U.S. market, strategically opening its U.S.-based headquarters in Boston. Temu invested more than \$1.2 billion in social media advertising to bolster the launch, primarily on the Meta platforms Facebook and Instagram. They also ran two commercials during Super Bowl LVII in 2023, reportedly spending more than \$14 million on the ads. During its first year of business in the U.S., the Temu shopping app became the most downloaded free app in the U.S. By September 2024, the app had been downloaded more than 431.74 million times, 40% of which came from U.S. users. By the end of 2023, Temu became the second-most visited e-commerce site in the U.S., trailing



focus seems to be the U.S., UK, Canada, Australia, and New Zealand markets, it does offer shipping options nearly worldwide, suggesting it intends to expand.

Temu projects revenue of \$41 billion in gross merchandise volume (GMV) in 2025, compared with Amazon's estimates of nearly \$700 billion. Temu is also slowing in its growth and showing a 29% decline in revenue over the last ten quarters.

How It Works

Temu's business model came under scrutiny in a May 2023 Wired report, which indicated that Temu was losing \$30 on average for every order. This translates to potential yearly losses of up to RMBY 6.73 billion (approximately \$928 billion). Remember, though, that when Amazon launched in 1995, it operated at a loss until 2001, when it recorded its first year of profitability. Like Temu, Amazon began by offering lower prices, gifts to consumers, and other incentives until it established itself as a necessary part of the e-commerce world. As such, Temu's lack of profitability in its first few years of operation should be understood as par for the course and focused on long-term success and not as a failing company.

Temu is earning its reputation by offering products at excessively low prices. The aggressive price strategy, coupled with its mobile-first interface through its popular app, has begun to attract anglers, particularly those new to the sport, who might be budget-conscious as they purchase entry-level tackle.

There's no question that Temu's bargain prices are attracting customers, and it behooves the tackle industry to understand how Temu can offer gear at such low prices. Temu's pricing strategy leverages a few approaches that have not been a significant part of the standard tackle industry's—or other industry's—sales tactics, nor have some of

its other practices like its aggressive marketing campaigns.

Temu bypasses traditional supply chain approaches by removing importers, wholesalers, and distributors from its process. Instead, it connects customers directly with manufacturers (most of whom are based in China) to employ a "direct-to-customer" (DTC) model, eliminating the layers of markup associated with sales platforms that use a traditional retail model or indirect distribution model (IDM), like Amazon does, allowing different suppliers to sell through the platform. Using Pinduoduo's established network of Chinese suppliers, Temu has quickly scaled to the U.S. and UK markets. Temu upsets the traditional approach by sourcing products directly from manufacturers and some independent sellers and shipping them directly to the customer, cutting out the middlemen and their associated costs, including warehousing costs, like those Amazon incurs. This is also why many of the tackle products listed by Temu do not include any brand name, and a search for a brand-specific product often returns results of a knock-off/imitation of the brand's product—or at least enough ambiguity to imply that the product is from the searched brand but never the actual brand name. For example, the screenshot here shows a spinning reel on Temu that uses a logo that resembles Daiwa's logo.

Temu can adapt successfully by leveraging PDD Holdings' extensive network of suppliers. Many employ cutting-edge manufacturing technologies and benefit from economies of scale, which translates to lower production costs. This, in turn, results in Temu's ability to sell at lower costs. However, because of the increasing user base for both Pinduoduo and Temu, Chinese manufacturers—many of whom are already struggling with a slow post-COVID recovery—are pressured to drastically cut production costs or even provide products for free. Thus, e-commerce experts question Temu's sustainability under their current model, and customer satisfaction with some products is noticeably low.

In March 2024, Temu began allowing U.S.-based sellers to sell through its platform. However, doing so has been difficult for U.S. retailers because Temu focuses on dealing directly with manufacturers, primarily from China. Likewise, Temu has a very selective onboarding process for sellers, and they don't make the criteria for selling publicly available, so it is difficult for sellers to be accepted by Temu or even know what is required to sell on the platform. The primary path to selling on Temu is already being a seller on Pinduoduo or applying directly to Temu.

In addition to offering consumers low costs, Temu uses strategic subsidies and promotions to entice customers, including free shipping, discounts to first-time buyers, and gamified referral programs that reward users for bringing in new customers. Temu also runs limited "flash sales" for popular items at significantly discounted prices, creating a sense of urgency and encouraging impulse purchases. While flash sales are motivated by short-term profitability impact, they are also a more calculated investment in customer acquisition and retention to the end of market share control.

Due to its sophisticated data analytics engine, Temu can deploy low-price and strategic subsidies. While Temu doesn't make public how its analytics engine works, given the company's focus on personalized sales, price optimization,



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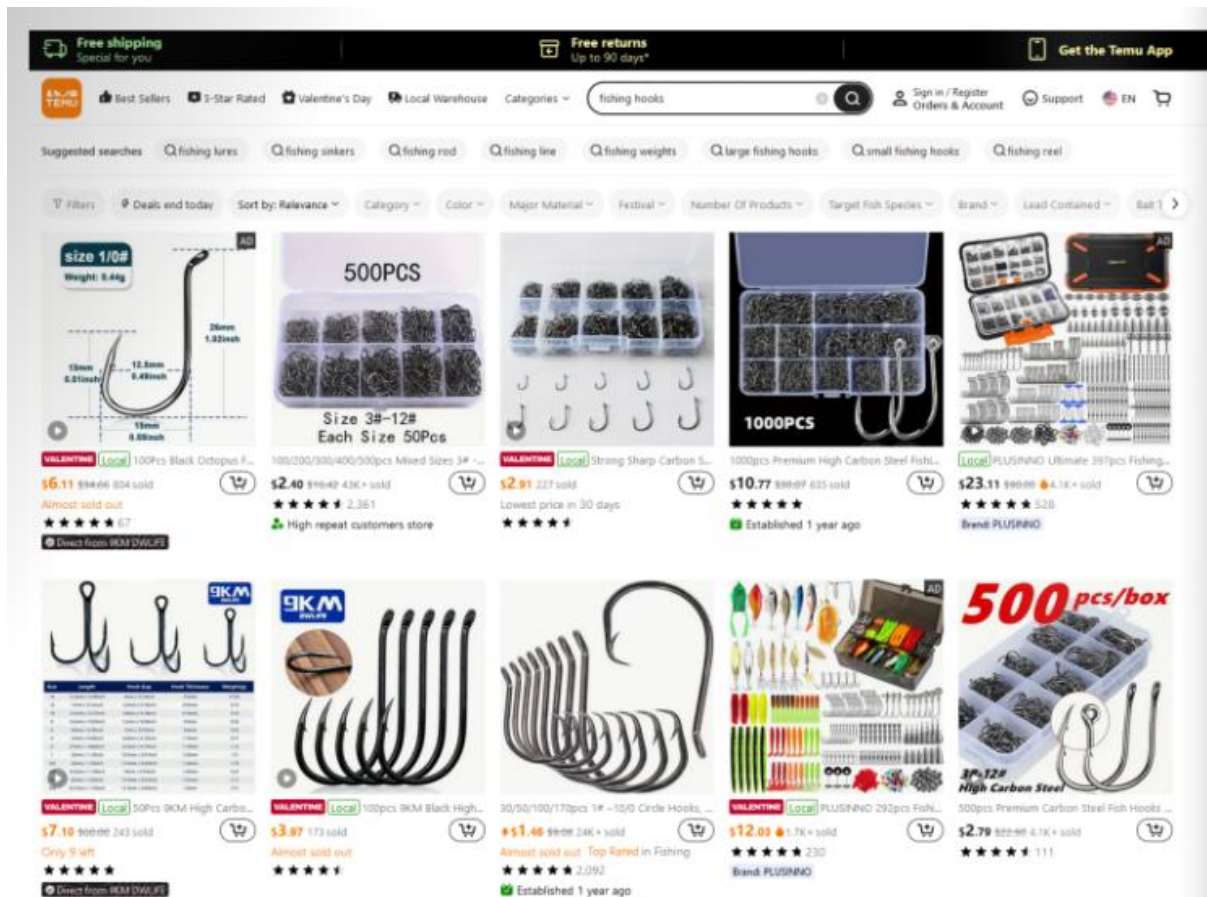
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supply chain management, and customer service, we can assume that the engine relies on artificial intelligence and machine learning to gather, curate, and analyze the immense amount of data about customer preferences, purchasing behaviors, and market trends needed for Temu to operate as it does. The data analysis Temu can perform inform operations like optimized pricing strategies and personalized marketing campaigns and then aligns those approaches with supply chain optimization and delivery optimization. These are, of course, strategies that more retailers are deploying generally, but Temu's access to vast amounts of customer data allows them to maximize and fine-tune their use of data in ways that most companies cannot.

Is It Sustainable?

Despite its growing popularity, critics and customers have voiced concerns about Temu's ability to maintain the levels of renown it has garnered for several reasons. First, because Temu encourages manufacturers to provide products at the lowest possible cost, there have been serious criticisms of the quality of Temu products. Second, given that most of Temu's products ship directly from manufacturers in China, delivery times are frequently much longer than those provided by other online retailers. Third, and perhaps most importantly, like other Chinese-based apps, there is growing concern over Temu's data collection practices and the potential for sharing data with Chinese authorities. Fourth, there have also been concerns regarding the labor practices of the Chinese manufacturers providing products for Temu, particularly given the mounting pressure to deliver large quantities of low-cost products in rapid delivery times.

These criticisms and others have also raised questions about the sustainability of Temu's sales model. Goldman Sachs recently reported that Temu's customer retention rate is under 30%, significantly below the industry average and drastically below Amazon's 90% retention rate. The report shows that Temu's low retention rate can be directly attributed to Temu's focus on lower prices at the risk of providing lower-quality products.

With all of this in mind, retailers in the recreational fishing industry should consider how this new approach to e-commerce might impact established retailers and brands. In an act of shameless self-promotion, I will say that my *FTR* column about AI can provide insight into many strategies that can keep retailers competitive in this rapidly changing landscape. Retailers may want to re-evaluate their pricing strategies, increase personalized customer recommendations, and

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re-imagine customer retention approaches. To that end, brick-and-mortar retailers, in particular, may want to develop strategies to offer customers the kinds of opportunities and benefits that e-commerce platforms can't provide. Given that 90% of tackle sales (according to the Southwick Associates' 2024 Trade Insights and Market Report I cited at the opening of this article) remain tied to brick-and-mortar

sales, those businesses will need to account for customer retention if trends toward e-commerce increase. To this end, retailers should consider strategies focusing on differentiation, identifying ways to differentiate themselves from Temu by emphasizing quality, customer service, expertise, and brand reputation. Likewise, omnichannel strategies can enhance seamless online and in-store experiences. Remember that Temu is not a specialized tackle retailer, so tackle-focused businesses can and should expand methods to provide expertise and customer experiences in ways Temu cannot.

Excise Tax Loophole?

It is important to note that many questions surround Temu and excise taxes. Technically, Temu should pay the same excise taxes that U.S. retailers pay when importing goods from China. However, some loopholes may allow Temu to bypass such payments.

Temu, like U.S. retailers, must pay import duties on products brought into the U.S. These duties are based on a product's country of origin, value, or classification.

Likewise, Temu, like other retailers, may be required to pay different taxes—like sales tax, use tax, or excise tax—depending upon which state products are shipped to. Technically, these taxes apply to all importers regardless of their origin.

The problem is that the U.S. has a de minimis threshold (currently \$800) for all imported goods. This means that shipments valued below the threshold are usually exempt from import duties and taxes. Because

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many Temu orders are valued below the threshold and because Temu ships products directly from China to fulfill individual orders rather than stocking and shipping from warehouses, Temu can potentially avoid paying excise taxes and duties on many orders entering the U.S. as they would have to by importing bulk goods. Notably, and to confuse the matter a bit, on February 5, 2025, President Trump scrapped U.S. de minimis rules, which would have left Temu having to pay import taxes on all of its shipments into the U.S.; however, on February 7, 2025, Trump reversed the order, leaving the de minimis rules in place—for now. It is unclear what will happen with the de minimis rules moving forward. During the two days in which the de minimis rules were removed, the U.S. Postal Service and U.S. Customs reported massive disruptions and slowdowns as they had to develop procedures to address increased monitoring of imported goods.

Many have voiced concerns that Temu's Chinese manufacturers undervalue their products to reduce import taxes and fees. For customs purposes, determining an accurate value for each imported order is too cumbersome and complex for our current import processes. While precise figures are not available, expert analysis suggests that Temu ships more than 1.6 million packages worldwide every day, a significant percentage of these to the U.S. Customs enforcement does not have the resources to identify and value every shipment that comes in, let alone specifically examine each that comes in from Temu. There is also speculation that the Chinese government subsidizes some exports, allowing companies like Temu to sell their products at lower prices and thus avoid the de

minimis threshold.

As should be obvious, if Temu avoids paying excise taxes and other import duties, allowing them to provide products at reduced costs, U.S. retail markets will feel the effect and be forced to lower their profit margins to remain competitive. To mitigate this risk, the U.S. must bolster customs resources to scrutinize all imports and ensure that importers like Temu comply with import regulations. To this end, U.S. customs must also strengthen penalties for undervaluation and other customs violations. This also means that the recreational fishing industry needs to work with industry associations and policymakers to advocate fair trade practices and address concerns about Temu's import practices.

Finally, we should also remember that Temu's evasion of paying excise taxes affects our conservation efforts. The Dingell-Johnson-sponsored Sport Fish Restoration Act of 1950 instituted a federal excise tax on fishing equipment to provide funding for aquatic conservation. The tax—currently set at 10% for most fishing tackle (capped at \$10 for fishing rods) and 3% for electric outboard motors and sonar—pays into a fund managed by the U.S. Fish and Wildlife Service. FWS distributes these funds to state fish and wildlife agencies to support various conservation projects, including fish stocking, habitat restoration, fisheries research, boating access development, and aquatic education. Temu's dodging these fees has broader implications for recreational fishing beyond tackle sales. ■