



# A price benchmarking analysis on the direct distribution channel

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A REPORT FOR TEMU

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# Executive Summary

Cebr was commissioned by Temu to conduct a price benchmarking analysis to assess the cost advantages to UK consumers of buying goods on platforms using the direct distribution channel.



## PRIMARY RESEARCH & LITERATURE REVIEW

We first carried out a literature review on the direct and indirect distribution channel, ascertaining their characteristics and benefits.

A Direct Distribution Channel (DDC) is where the manufacturer directly supplies their goods to the end consumer, bypassing various intermediaries in the transaction. The Indirect Distribution Channel (IDC) consists of several intermediaries between the manufacturer and the end consumer facilitating the transaction.

As part of the research, we conducted two interviews with suppliers that operate on the ecommerce platform Temu. The aim of this primary research was to gather a deeper understanding of the relationship between Temu and its suppliers and to possibly identify specific mechanisms that are common with direct distribution channels.

**We argue that Temu's model presents many of the characteristics of a direct distribution channel due to its low number of intermediaries and other DDC features.** Considering the factors outlined below, we assert that Temu serves as a suitable benchmark for the impacts of a full Direct Distribution Channel (DDC).

**Temu effectively acts as a services partner for manufacturers in the distribution channel, keeping the number of middlemen low and managing many functions that are typically handled directly by manufacturers in a DDC.** The reduction in number of intermediaries can therefore contribute to a lower price for consumers as fewer margins are placed at each stage.

In a pure direct distribution channel, manufacturers deal straight with their end consumer and can therefore ascertain their preferences and demand levels. **Temu's hybrid distribution channel also allows for this by providing sellers information on product sales data and consumer feedback.** This keeps the manufacturer connected to the consumer as they can improve their products, maintain productive efficiency, lower production costs and subsequently offer lower prices.

In the direct distribution channel, delivery time is more streamlined as the product is shipped straight to the consumer. **Temu's distribution channel mimics this as manufacturers' products are shipped directly from the Temu warehouse to the end consumer.** This, once again, contributes to keeping costs and prices low.

For the price benchmarking exercise, we considered CPI data and categorisations to map UK household expenditure categories, then isolated appropriate goods on Temu that matched these categories, before identifying the prices of identical goods on other ecommerce IDC websites.

The selected products were then aggregated into 16 categories to allow for comparison with consumer spending data from the Office for National Statistics (ONS). The average number of households in the UK was then utilised to translate this spending to average household spending.

The difference between the prices on the Temu and selected IDC websites was then weighted according

to the goods' CPI weights. This allows for the price to reflect the relative importance that consumers place on each good. This allowed us to obtain current household spending in the UK on each product category and compare it to potential household spending in the UK on each product category if the spending occurred on DDC ecommerce websites such as Temu.

These total savings were also compared with the post-tax average pay of different occupations in the UK.

KEY FINDINGS

CEBR ESTIMATES THAT,

**By shopping on e-commerce platforms utilising direct distribution channels [1], a UK household could save:**



Across all product categories in a typical CPI basket of goods



**Clothing**

Up to £79 on clothing - which represents the largest monetary saving amongst the categories. *This represents 48% of the average UK household's monthly spending on clothing.*



**Personal effects**

Up to £21 on personal effects [2]. *Which represents the largest relative saving amongst the categories.*

[1] Compared to platforms which do not use the direct distribution channel

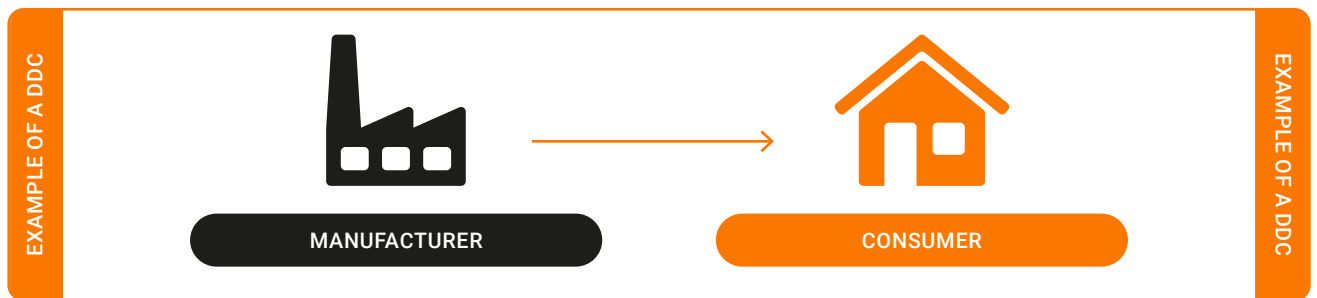
[2] Personal effects includes items such as jewellery, clocks, watches and travel goods

# Distribution Channels

A distribution channel is the path a manufacturer employs to deliver their goods or services to the end consumer. This channel can be either direct or indirect.

## Direct Distribution Channel

A Direct Distribution Channel (DDC) is where the manufacturer directly supplies their goods to the end consumer, bypassing all intermediaries in the transaction. The manufacturer will therefore control all factors in the process to delivering the product straight to the consumer.



### Benefits

Manufacturer has total control so can remove inefficiencies in the supply chain and therefore offer low prices.

Manufacturer deals straight with the consumer, which can help improve brand loyalty.

More streamlined delivery time as the manufacturer dispatches straight to the end consumer.

Access data on consumer habits which may therefore help improve business practices.

### Disadvantages

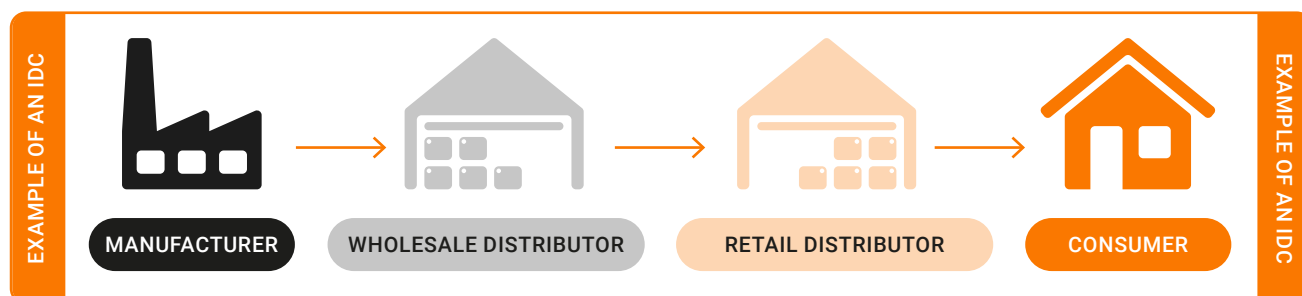
Higher initial start-up costs as the manufacturer must invest in warehouses, logistical frameworks and delivery systems.

More difficult to reach the new consumers without accessing the distribution network already set up by intermediaries.

Difficult to focus on the core part of the business when responsible for the distribution and delivery of products.

## Indirect Distribution Channel

The Indirect Distribution Channel (IDC) consists of several intermediaries between the manufacturer and the end consumer facilitating the transaction. Intermediaries include, for example, wholesalers, agents, brokers. [1] [2]



### Benefits

The manufacturer can free up time and initial fixed costs by leveraging the expertise of the intermediary companies.

Good relationships with the intermediaries can enable the manufacturer to benefit from more savings.

Reach more potential consumers as distribution intermediaries have access to a vast network of markets.

Since distribution responsibilities are handed to intermediaries, the manufacture can focus more on their core business.

### Disadvantages

The extra layers in the distribution channel with margins at each stage can result in higher costs and prices for the end consumer.

Intermediaries may also be distributing competitor products and therefore the manufacturer must pay a higher commission to stand out.

Longer delivery time and less consumer interaction as distribution depends on the intermediaries.

The manufacturer has less control over the distribution of their products as dependency on intermediaries rises.

[1] Oxford Reference (2024): <https://www.oxfordreference.com/display/10.1093/oi/authority.20110803095602156>

[2] bdc (2020): <https://www.bdc.ca/en/articles-tools/marketing-sales-export/marketing/how-bring-new-product-market>

[3] Wells Fargo (2024): <https://smallbusinessresources.wf.com/direct-vs-indirect-distribution-channels-whats-best-for-you/>

# Primary Research

As part of the research, we conducted two interviews with suppliers that operate on the ecommerce platform Temu. The objective of this was to enhance our understanding of Temu's distribution channel and how this differs from other channels employed by other ecommerce platforms. This research will help us determine whether Temu can be a possible benchmark for a direct distribution channel in our price comparison analysis.

## SUPPLIER – TEMU RELATIONSHIP

The first supplier is a large manufacturer of ceramic products, and the second one is a supplier that specialises in the production of vacuum flasks. Both suppliers place their product listings on Temu. The supplier is responsible for manufacturing their products and transporting them to Temu's designated warehouses in China. From here, Temu manages the shipping, logistics, customs and delivery of the products to the final consumer as well as post-sale customer service. The only stakeholders in this distribution channel are the supplier and Temu.

Initially, the supplier will provide 15-20 samples to Temu who will then gather initial sales data and

customer reviews, which are then shared with the supplier. Temu will then advise suppliers on how much stock to send to their warehouses. Having access to this information allows the supplier to be connected directly to the end consumer and gauge demand for their product.

This is corroborated by numerous external sources which state that Temu uses a reverse-manufacturing model which provides manufacturers useful insights on consumer behaviours and preferences. Popular products will be re-ordered from the suppliers while weak-performing ones will be replaced. [1][2][3]

## PRICE DETERMINATION

When determining the price of the product sold, the suppliers stated that they set the price in consultation with Temu. Temu provides them with recommendations on how to establish their prices depending on the prices of competitors. For example, if competitors have priced their products lower, Temu then advises the supplier to price match.

Both suppliers stated in their interviews that the only stakeholders involved in the process are them and Temu. Therefore, margins are only applied at these stages. This factor may contribute to the lower prices faced by consumers on Temu's platform.

Furthermore, with producers having access to sales data, they are able to gauge demand for their product and adjust their production accordingly. Both suppliers stated that they saw this as a large benefit of working with a platform such as Temu. This improves their efficiency as they can reduce over-production and lower costs on extra raw materials. Moreover, this valuable consumer insight helps supply to meet demand. This has benefits such as contributing to lower marketing budget, helping to keep costs and thus prices low for consumers.

[1] ECDB (2024): <https://ecommercedb.com/insights/temus-strategy-to-compete-in-the-realm-of-ultra-fast-ecommerce/4439>

[2] BBC News (2024): <https://www.bbc.co.uk/news/business-68563339>

[3] TechWire Asia (2023): <https://techwireasia.com/10/2023/what-is-temu-and-how-is-it-taking-over-the-shopping-landscape/>

In summary, a direct distribution channel is where the manufacturer supplies their goods to the consumer directly. In Temu's hybrid model, Temu facilitates a relationship between the manufacturer and consumers. By not producing goods themselves, Temu acts as an intermediary while managing functions on behalf of manufacturers.

However, relative to other ecommerce platforms, Temu's distribution channel significantly reduces the number of intermediaries and for the reasons below, we therefore argue that Temu represents a suitable benchmark to use in our price comparison analysis against other ecommerce websites that rely on more intermediaries.

1

Temu acts as the sole intermediary in the distribution channel for manufacturers, keeping the number of middlemen low and coming close to a direct distribution channel. This can therefore contribute to a lower price for consumers as fewer margins are placed at each stage.

6

£

2

In a direct distribution channel, manufacturers deal straight with their end consumer and can therefore ascertain their preferences and demand levels. Temu's distribution channel also allows for this by providing sellers insight into product sales and consumer feedback. This keeps the manufacturer connected to the consumer as they can improve their products, maintain production efficiency, lower production costs and subsequently offer lower prices.

For ecommerce companies with more intermediaries than in Temu's case, it is likely that the manufacturer generally receives less interaction with the end consumer due to the numerous intermediaries between them. This can prompt over-production as manufacturers are less aware of consumer preferences and therefore lead to higher prices.

3

In the direct distribution channel, delivery time is more streamlined as the product is shipped straight to the consumer. Temu's distribution channel mimics this as manufacturers' products are shipped directly from the Temu-designated warehouse to the end consumer. This, once again, contributes to keeping costs and prices low.

Overall, Temu's direct-to-factory model allows manufactures to concentrate on their core operations while reducing logistical, marketing and sales costs which are handled by Temu instead.



# Key Findings



**The goods included as part of this research were identified by looking at a typical Consumer Price Index (CPI) basket of goods.** The basket is designed to be representative of consumer spending patterns and weights are assigned to each good in the basket to measure the relative importance the good has in overall consumer spending.

Not all products included in the CPI basket are suitable to be sold on ecommerce platforms. Specifically, we include below the categories of goods sold on Temu, that are also in the CPI basket. This notably meant also excluding all services from the CPI basket:

## Clothing

includes items such as garments, accessories and cleaning products



## Medical Products

includes items such as corrective eye-glasses and small medical products



## Footwear



## Telephone Equipment

includes items such as mobile telephone equipment



## Maintenance Products

includes materials for maintenance and repair



## Audio-Visual Equipment & Related Products

includes items such as speakers, projectors, radios and CD players



## Household Textiles

includes items such as bed linens and table linen



## Other Major Durables for Recreation & Culture

includes items such as sport equipment and music instruments



## Household Appliances

includes items such as heaters, air conditions, coffee machines and other small electric appliances



## Other Recreational Items, Gardens & Pets

includes items such as board games, camping equipment and garden products



## Glassware, Tableware & Household Utensils

includes items such as crystal-ware, kitchen utensils and glassware



## Books, Newspapers & Stationery

includes items such as stationery, posters, calendars and paper products



## Tools & Equipment for House & Garden

includes items such as non-motorised small tools and accessories



## Personal Care

includes items such as hairbrushes, soap and trimmers



## Goods & Services for Routine Maintenance

includes items such as small household articles



## Personal Effects

includes items such as jewellery, clocks and watches and travel luggage



The previously presented category aggregation allows for comparison with consumer spending data from the Office for National Statistics (ONS). The average number of households in the UK was then utilised to translate this spending to average household spending.

The difference between the prices on the Temu and selected IDC websites was then weighted according to the goods' CPI weights. This allows for the price

to reflect the relative category expenditure of consumers. This was then compared to potential household spending in the UK on each product category, if the spending occurred on DDC ecommerce websites such as Temu, specifically relative to alternative ecommerce sites.

The graphs on the next page show total monthly spending by a UK household for each category.

### Every month the average household spends:



**£163**

on clothing



**£83**

on other recreational items, gardens and pets



**£72**

on personal care



**£8**

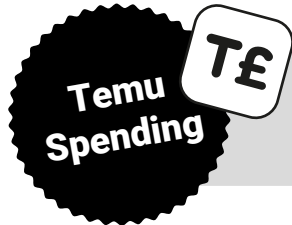
on books, news papers & stationary



**£24**

on audio-visual equipment and relation products

### Monthly spending is then broken into:



How much a UK household would spend if they did all their shopping on a platform using a direct distribution channel, such as Temu

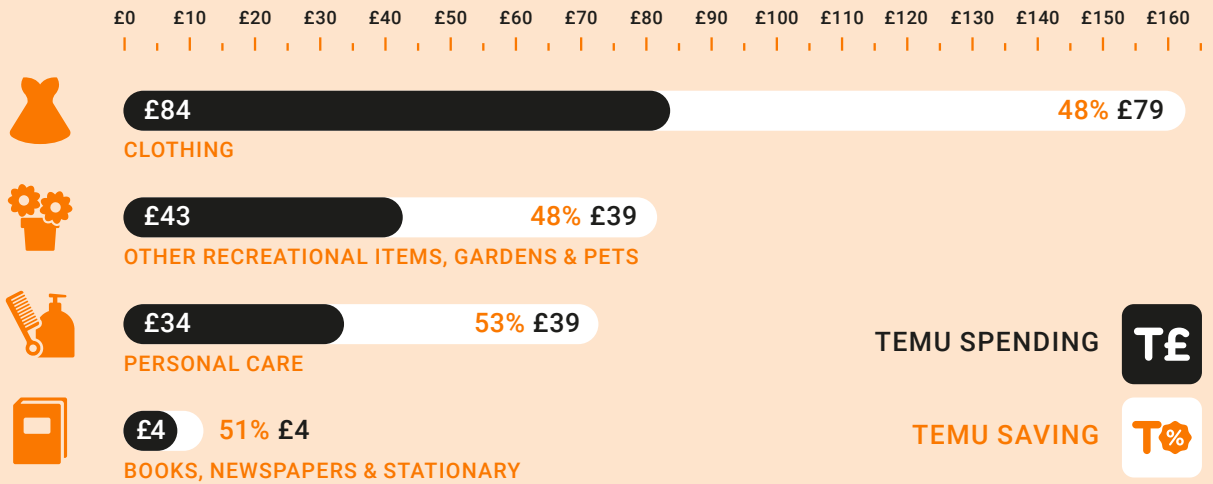
The resulting savings they would benefit from by choosing to buy on a DDC platform as opposed to an alternative ecommerce platform



**The two figures then add up to the average household monthly spending presented above.**

By aggregating the potential savings in each category, we obtain an estimate of the monthly savings for the average UK household associated with shopping on platforms utilising a DDC.

## Monthly household spending ordered by ascending CPI weight



**Clothing** is the product category with the largest monetary saving potential where the direct distribution channel can help households **save an average of £79 every month**, compared to shopping for equivalent items on an indirect distribution channel ecommerce platform.

*This is approximately 48% of the total amount that the average UK household spends on clothing every month.*



In the **other recreational items category**, the direct distribution channel can help households **save an average of £39 every month**, compared to shopping for equivalent items on an indirect distribution channel ecommerce platform.

*This is approximately 48% of the total amount that the average UK household spends on recreational items every month.*



In the **personal care category**, the direct distribution channel can help households **save an average of £39 every month**, compared to shopping for equivalent items on an indirect distribution channel ecommerce platform.

*This is approximately 53% of the total amount that the average UK household spends on personal care every month.*



In the **books, newspapers and stationery category**, the direct distribution channel can help households **save an average of £4 every month**, compared to shopping for equivalent items on an indirect distribution channel ecommerce platform.

*This is approximately 51% of the total amount that the average UK household spends on books, newspapers and stationery every month.*



















The table below shows savings relative to household spending ordered from highest to lowest in percentage terms.

**The largest savings relative to household spending are in the personal effects category** where data gathered suggests **households could save up to 68%** in this category by shopping on platforms utilising a DDC compared to platforms

that do not. This category consists of products such as jewellery, clocks, watches and travel goods.

This is followed by Maintenance Products, Household Textiles and Personal Care products, with household savings up to 53% in these categories.

CATEGORY		CPI WEIGHT	CONSUMER SPENDING	TEMU	
				SAVING	PERCENT SAVING
Personal effects		9.44	£30.86	£20.88	68%
Personal care		23	£72.45	£38.71	53%
Maintenance products		2	£2.79	£1.49	53%
Household textiles		3.15	£12.36	£6.58	53%
Books, newspapers & stationery		12	£8.23	£4.21	51%
Telephone equipment		2.76	£1.38	£0.71	51%
Footwear		9	£32.32	£16.52	51%
Medical products		5.01	£6.12	£2.97	49%
Clothing		50.82	£163.48	£79.03	48%
Glassware, tableware & household utensils		7.6	£19.58	£9.44	48%
Other recreational items, gardens & pets		28.86	£82.71	£39.37	48%
Goods & services for routine maintenance		7	£18.57	£8.83	48%
Tools & equipment for house & garden		5.81	£16.07	£6.41	40%
Audio-visual equipment & related products		10.46	£24.07	£7.89	33%
Other major durables for recreation & culture		3.36	£5.83	£1.76	30%
Household appliances		7.15	£14.65	£1.96	13%
<b>Average Saving</b>					<b>46%</b>

To contextualise the savings potentials associated with shopping on DDC platforms compared to other ecommerce sites, we compared these savings with the post-tax average salary of different occupations in the UK.

CEBR ESTIMATES THAT,



By shopping on platforms such as Temu that represent suitable benchmarks for the direct distribution channel compared to platforms which do not, households shopping for a typical basket of goods can save up to £2,961 [1]



This represents 15% of the average annual income of an individual in the UK working as a health and social care professional



This represents 11% of the average annual income of an individual in the UK



This represents 27% of the average annual income of an individual in the UK working in elementary administration and service occupations.



[1] Please note that this analysis compares household savings to individual income.  
Some households may have more than one source of income

# Shipping



As part of our analysis, we have considered whether shipping costs from the manufacturer could potentially play a role in affecting the final price a consumer pays, and possibly justify the price difference between ecommerce platforms using either a direct or indirect distribution channel.

One may hypothesise that differing relationships with shipping businesses, or varying economies of scale, could lead to differing shipping costs. These costs would not be factored into our previous analysis which solely focused on item prices but may be added later and passed on to the end consumer. If these shipping costs are added after the listed price of the item and ultimately borne by the final consumer, this would risk leaving the prior analysis unrepresentative of the final consumer price to receive goods.

To indicatively test this hypothesis, we researched a typical basket of clothing goods on Temu, our closest DDC benchmark, with another ecommerce platform, our IDC benchmark. Specifically, we created an identical basket of clothing goods on Temu and on the other ecommerce platform. The basket of goods cost over £200 on the Temu and over £400 on the IDC platform. Temu guaranteed free shipping on all items [1] while the IDC platform gave free standard shipping for several items, but extra delivery costs for items that are delivered by a third-party seller and not the ecommerce platform itself.

**While not comprehensive, this test did not support the hypothesis that the analysis was structurally missing out on a significant cost, giving confidence in the prior conclusions.**

[1] Please note that Temu guarantees free shipping on items above a certain amount.

The goods in the example basket for this exercise all qualified for free shipping.

# Customs Duty



We have also considered whether import/customs duty applied at the UK customs border, disproportionately affects the price difference between companies using a direct or indirect distribution channel. The table below demonstrates a simplified version of the UK's Customs Duty structure. [1]

TYPE & VALUE OF GOODS	CUSTOM DUTY
<b>Non-excise goods value ≤£135</b>	No Charge
<b>Gifts and goods value &gt;£135</b>	Duty rate depends on type of good and from which country. Duty is paid on all excise goods of any value

It could be theorised that changes in the distribution channel, including the addition or subtraction of middlemen, impact the value of individual imported packages. For instance if packages for many consumers are imported as one item, the total value is more likely to exceed the £135 threshold, than if packages are imported individually. For ecommerce platforms specifically, per these rules if packages are imported directly and the value of each individual package falls below the threshold, no additional costs need to be passed on to the consumer. [2] [3]

We therefore conducted research on the import duties levied on various product categories used in our analysis when imported to the UK. These duties range from 0% to 16%. These duties must be paid if the value exceeds the £135 threshold.

As an example, when importing goods from China, glassware, clothing, and footwear are subject to

duties of 10%, 12%, and 16%, respectively. When importing goods from India, glassware, clothing, and footwear are subject to duties of 6.5%, 9.6%, and 4.5%, respectively. When importing from the European Union, The UK has a preferential tariff system in place allowing traders to import goods at a zero duty rates for most goods. [1]

**Given the duty percentages (typically under 20%), while this may play a factor in the final price that the consumer pays, we do not believe that the duty structure in the UK is substantial enough to explain majority of the price difference, irrespective of the relative benefit enjoyed by different organisations utilising different distribution models . We therefore argue that the price differences are predominantly due to differences in distribution channels used by different companies, rather than the fiscal implications of these.**

[1] Gov.UK: <https://www.gov.uk/goods-sent-from-abroad/tax-and-duty>

[2] Rethink Trade (2022): <https://perfectunion.us/congress-could-close-one-of-amazons-favorite-loopholes/>

[3] BBC News (2024): <https://www.bbc.co.uk/news/business-68563339>

# Methodology

Our approach consists of the following stages:



## PRIMARY RESEARCH & LITERATURE REVIEW

We first carried out a literature review on the direct and indirect distribution channel, ascertaining their characteristics and benefits. This research was also necessary to deduce whether and to what extent, Temu's distribution model fits within a direct distribution channel. As part of the primary research, we conducted two interviews with suppliers that

operate on the ecommerce platform Temu. The aim of this primary research was to gather a deeper understanding of the relationship between Temu and its suppliers and to possibly identify specific mechanisms that are common in direct distribution channels.

## PRODUCT SELECTION

Our starting point in the benchmarking analysis was to identify the product categories and products in the Consumer Price Index (CPI) basket which are available on Temu.

The CPI basket is a representative selection of goods and services used to measure changes in the overall price level of consumer items over time. An excerpt of the Clothing category is shown below with further sub-categories.

Weights in the CPI basket represent the relative importance or significance assigned to each item in the basket as they are based on actual consumer

spending patterns. This allows us to reflect the relative importance of different spending categories and ensures that the analysis considers not only the savings on individual products, but also the representative impact on consumer spending.

In the original CPI basket, the weights add up 1000, however, not all products included in the CPI basket are sold on ecommerce platforms such as Temu. This meant also excluding all services that were included in the CPI basket. The final sum of CPI weights in our list of products that are sold on different ecommerce platforms amounts to 187.

	WEIGHT		WEIGHT
<b>03.1 Clothing</b>	<b>51.0</b>	<b>03.1.3.1</b> Other articles of clothing	<b>4.0</b>
<b>03.1.2.1</b> Garments for men	<b>12.8</b>	<b>03.1.3.2</b> Clothing accessories	<b>2.0</b>
<b>03.1.2.2</b> Garments for women	<b>21.6</b>	<b>03.1.4.1</b> Cleaning of clothing	<b>0.8</b>
<b>03.1.2.3</b> Garments for infants (0-2 years)	<b>9.7</b>	<b>03.1.4.2</b> Repair and hire of clothing	<b>0.2</b>





In the CPI basket, each category is broken down into subcategories and we then identified individual products within that category. For example, the clothing category is broken down into sub-categories such as garments for men, which is broken down further into Shirts, Trousers and Jackets. We divide the sub-category weight equally for each item. We, then, compare the prices of the selected items on Temu with identical products sold on other websites, which do not have the same direct distribution channel as Temu.

For each item, we conducted a reverse image search to find identical products sold on other ecommerce websites, such as Amazon.[1] The advantage of comparing identical products as opposed to fundamentally different products is that we can more confidently attribute price differences to direct distribution channels, which bypasses margins at

several stages, and not to differences in quality, or other characteristics which impact manufacturing costs. [2]

The search for products on Temu prioritised finding a top-selling product that was identical on another website without any deals imposed by Temu such as lightening deals or special sales, so that the representative longer-term price could be recorded. While 81 products in the CPI basket were found without such promotional deals, this was not possible for the remaining 55 products that were found through deals. For these latter products, we ignored items with lightening deals given their high price volatility and instead focused on deals where the price was constant for longer. [3][4]

Data was collected in March and April of 2024

CATEGORY	WEIGHT
03.1 Clothing	51
03.1.2 Garments	44
03.1.2.1 Garments for men	12.76

CATEGORY	WEIGHT
Men's Shirts	4.25
Men's Trousers	4.25
Men's Jackets	4.25

[1] While Amazon was the primary data source for the IDC data, we tested consideration of identical products found on other ecommerce sites. While there is some obvious variation in site-by-site prices for specific products, overall the broad trend was consistent. The average Amazon price was actually slightly lower than that found for identical products on other ecommerce sites, suggesting our analysis is likely conservative in the estimation of percentage savings and subsequently monetised benefits.

[2] Please note, we did not search for service-related or specific product items in the CPI basket that were unavailable on Temu such as repair and hiring of clothing or vehicles.

[3] Please note, the prices of these products are constantly changing hence our calculations are dependent on the prices that were taken at the time of data gathering.

[4] As data collection of prices for numerous goods on the ecommerce platforms was a manual one, there is a small scope for human error.

The goods included as part of this research were identified by looking at a typical Consumer Price Index (CPI) basket of goods, then matching these with goods sold on ecommerce platforms. The CPI basket is designed to be representative of consumer spending patterns and weights are therefore assigned to each good in the basket to measure the relative importance the good has in the consumer's spending patterns. The goods were then aggregated in the categories previously presented.

The previously presented category aggregation allows for comparison with consumer spending data from the Office for National Statistics (ONS) [1]. The average number of households in the UK was then utilised to translate this spending to average household spending.

The difference between the prices on the Temu and selected IDC websites was then weighted according to the goods' CPI weights. This allows for the price to reflect the relative importance that consumers place on each good. This allowed us to obtain current

household spending in the UK on each product category and compare it to potential household spending in the UK on each product category if the spending occurred on DDC ecommerce websites such as Temu.

It should be noted that the price differential measured, is that between Temu and other ecommerce sites. Therefore the correct interpretation for this saving, is the saving realised if an individual currently spending the average monetary value on CPI goods on ecommerce sites not implementing DDC models, switched to solely purchasing these goods on Temu. If an individual purchased some or all of these goods through other channels (such as bricks and mortar retailers), then this saving would vary.

To contextualise the savings potential associated with shopping on a DDC platform, we compared these savings with the post-tax average pay of different occupations in the UK [2].

[1] ONS (2024): <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/consumertrendschainedvolumemeasureseasonallyadjusted>

[2] Please note, this analysis is comparing household saving to individual income. Some households may have more than one sources of income.

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