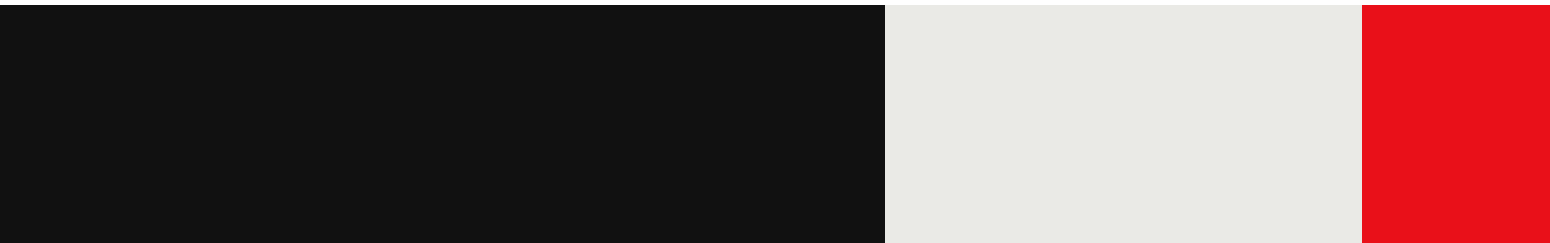


Reimagining Retail: How Chinese companies influence US retail and how fashion retail will change as a result

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss the opportunity for China-based companies like Shein, Temu, and TikTok in the US, and how they can compete with Amazon. Then for "Red-Hot Retail," our analysts give us some spicy predictions about how fashion retail will change in the US as a direct result of Chinese manufacturers. Join our analyst Sara Lebow as she hosts analysts Sky Canaves and researcher and Asia-Pacific lead Man-Chung Cheung.

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Episode Transcript:

Sara Lebow:

Looking for reliable data to inform your decisions? At Insider Intelligence, we provide access to over 3000 global sources, offering objective research on key topics like retail and e-

commerce trends for 2023, marketplace growth, direct selling strategies for CPGs, brands, and insights on the 2023 holiday season. Make informed decisions with confidence. Learn more today at insiderintelligence.com.

Hello, listeners. Today is Wednesday, August 9th. Welcome to Behind the Numbers: Reimagining Retail, an e-marketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is how Chinese companies are influencing retail in the US.

First, let's meet today's guests. Joining me for today's episode, we have senior analyst, Sky Canaves. Welcome back, Sky.

Sky Canaves:

Hi Sara, always happy to be back.

Sara Lebow:

Always good to have you. And joining us on the retail pod for the first time is senior researcher and Asia Pacific lead, Man-Chung Cheung.

Man-Chung Cheung:

Hey, excited to be here.

Sara Lebow:

Great to have you. Okay, let's get started with Free Sample, our did you know segment where I share a fun fact, tidbit or question. Today's question, do either of you know the difference between a button up and button down shirt?

Sky Canaves:

That is a stumper. No, I don't. Is it a regional difference?

Sara Lebow:

It is not, but it's a good guess.

Man-Chung Cheung:

Just to let you know, actually, my wife buy all my clothes, so I don't know anything about fashion, just to get it out there.

Sara Lebow:

Okay, well I'm glad we have you on the retail podcast to discuss it. A button down shirt has buttons on the collar that you can button down, you can button down the collar. Whereas a button up shirt doesn't have those buttons, so its collar is more likely to be starched, you don't need to button the collar down. An Oxford shirt is typically a button down shirt.

Sky Canaves:

Makes sense.

Sara Lebow:

Thanks.

Sky Canaves:

That is a very useful distinction.

Sara Lebow:

Yeah, I'm pretty sure it originated because the collars were flapping up while people were playing polo, wearing the shirts. I also think that's where the polo shirt comes from, but maybe that's a tidbit for a different day.

Okay, let's keep moving along past our fashion quiz into our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is how Chinese companies are influencing retail in the US. There are three big companies with Chinese roots that seem to be everywhere in US e-commerce news recently. Shein, a fast fashion retailer selling out of China, Temu, the US-based subsidiary of the same parent as Chinese retailer Pinduoduo, and TikTok, which is the sister app to China's Douyin, which we talked about on last week's podcast in terms of e-commerce. So my first question, which I'll hand over to you, Sky, is what is the retail opportunity for these companies in the US?

Sky Canaves:

So for the US, e-commerce is still growing pretty steadily here and that's because e-commerce penetration isn't anywhere nearly as high as in China. So in China this year, it's close

to 46% I believe, it's approaching 50%. There's not a lot of room for e-commerce growth in China as there is in the US, where it's only around 15% of sales taking place online. And even by 2027, it's only going to be around 20%. So e-commerce sales growth is actually growing faster in the US than in China. And the US is also the world's biggest retail market and will stay that way for the foreseeable future. That's according to our forecasts. So I think just the appeal of the US market and the fact that e-commerce is continuing to grow here is really the big opportunity. And at the same time, I think China's a much more highly competitive market for retail and there's also that slowdown in the consumer economy there. So it's really pushing the companies, the e-commerce players, and the brands and manufacturers to look overseas for their next stages of growth.

Sara Lebow:

To expand on that retail size data that you brought up, according to our forecast, total retail sales in the US this year will be 7.3 trillion. In China, there'll be 6.4 trillion. So the US is bigger overall, but then in terms of e-commerce, China's e-commerce sales are at nearly 3 trillion this year, whereas in the US it's only about 1 trillion this year for total retail e-commerce sales. Man-Chung, can you expand on that forecast a little bit?

Man-Chung Cheung:

Yeah, so just to answer your question, I think that they must have felt that there's some kind of advantage they could bring to the US market that the incumbent here don't have. Chinese companies, usually they're really close to the manufacturers so they usually have a price advantage, speed advantage, all those stuff. So all those comes into play that would be able to allow them to perhaps carve a niche in the US market.

Sara Lebow:

They have a price advantage for sure. Do they have a speed advantage? Or does the speed of shipping slow them down?

Man-Chung Cheung:

I guess, yeah, if they are, in terms of speed, you can talk about production turnaround. Spotting an idea and turn it around within three days, that's the speed advantage. But when it comes to shipping, I would say typically if you're shipping from China, you talk about perhaps a week, two weeks, or even longer.

Sara Lebow:

That's a good point. It takes a while to ship them. But in terms of getting ideas listed on the site, Shein has intense AI that gets ideas listed, thousands of them a day I saw quoted in Gizmodo. So two of these companies, TikTok and Temu, are very careful about their corporate identity as non-China based companies, despite their ownership being tied to China. Why is this distinction so important to these companies? Sky?

Sky Canaves:

Mainly it comes down to the political tensions between China and some of its major trade partners like the US. So here, I think we've seen with TikTok, the biggest that we've seen unfold revolves around national security. Even as these companies move into retail, it's still digital and they're collecting vast amounts of consumer data and there are some valid concerns about where that data is stored and who can gain access to it. And the big concern is Chinese government authorities, so that brings up the national security concerns and how that data could then be used against to harm US interests. And then there are also concerns around data privacy, malware, human rights, labor and environmental practices, and even unfair trade practices since these companies are able to ship their goods to the US using an exemption to import taxes for packages that are under \$800 where they're being shipped directly to consumers.

And that's something that major retailers like Walmart and Target that are importing large volumes of goods and have to pay taxes on them, they don't enjoy that advantage. So there are really a lot of concerns about how these companies and their links to China and how they're harming US interests at China's benefit. So I think the key for them to distance themselves from China has been to set up these overseas headquarters and store their data outside of China. Though, at least in the case of TikTok, we've heard that hasn't necessarily always succeeded in maintaining the wall because employees in China have been able to access US user data and I think Temu's sister app, Pinduoduo, has run into some issues with malware and being taken off app stores outside of China as well.

Sara Lebow:

Yeah, even Shein, the company that is certainly based in China, they've also made efforts to have a better image in the US. They recently had that TikTok influencer trip where they brought a bunch of influencers to come look at a factory. There was a lot of controversy

about whether or not that was a realistic example of a Shein manufacturing site since it was very clean and put together, but similar efforts to present a good face to US consumers.

Sky Canaves:

And as they come under more scrutiny, we'll also see a lot more lobbying by these firms. So TikTok is one that's already vastly increased its lobbying budget and I think we'll see similar efforts from Shein and Temu as they come under more scrutiny. There's already a US congressional committee has singled them out and targeted them in a recent report that listed a lot of the concerns about these companies and how they do business.

Sara Lebow:

Another huge competitor for these companies in the US is obviously Amazon. So I guess my next question is how are Shein, Temu and TikTok competing with Amazon, a company that already has 40% share of US retail e-commerce sales? And Man-Chung, I'll go to you first on that one.

Man-Chung Cheung:

Yeah, again, it comes down to, again, we talk about pricing. So they are selling products at a price just like ballpark, just by guess, maybe 25% or 20% of what I expected to pay for a similar product that might be sold with a branded retailer. So it's just amazingly cheap and if you don't feel like, "I'm just getting a slipper a belt, I don't really care about the brand that much, I'm just going to go on these sites," Amazon is a little bit daunting, to be honest, to shop, especially for younger audiences. And I think that Shein and Temu, they both market heavily on TikTok and other social media sites so they're able to attract these younger audiences who are on TikTok and they want something fast.

Sara Lebow:

Yeah, if you browse TikTok, you get all of these Shein hauls that we've discussed before, they're huge on TikTok. And if you look at Temu at all, the prices are absurdly cheap. If you scroll through the site, the prices are astonishingly low.

Man-Chung Cheung:

Yeah, well they have a range, I would say. So I think it becomes to daily household products. You talk about things that are \$5 below, sometimes \$10, but if you go to customer

Radiotronics, we're looking at perhaps hundred, possibly more. So just to put out there, it's not everything, it's \$5 to \$10.

Sara Lebow:

That's a great point, and I know Shein has been getting into some higher end products as well. Sky, anything to add in terms of Shein, Temu and TikTok competing with Amazon?

Sky Canaves:

So I think we're seeing shifts in how Amazon strategizes, what its response will be. So far it hasn't really come out with anything targeting them specifically, but I think as Amazon Prime particularly becomes more about paying for the convenience of getting things faster, Amazon's making huge commitments to one day and same day delivery. And that's becoming a real value add of Prime membership when you need things that day or the next day. And that's going hand in hand with their push to sell more of the kinds of products that you want quickly, namely things like grocery, food and beverage, personal care products, household supplies. We're seeing phenomenal sales growth for Amazon in these categories in our most recent forecasts, and I think that's an area where they're continuing to push for.

For a lot of other products, inexpensive fashion products or home goods or consumer electronics accessories that people have already been buying on Amazon for a long time from these Chinese merchants, often you can wait a week or 10 days, and so I think we're seeing consumers are willing to make that trade-off between price and convenience for certain types of goods, and at the same time, they're able to sell them so cheaply because selling at Amazon has really started to come at higher price. According to Marketplace Pulse, earlier this year reported that Amazon is now taking more than 50% of seller revenues, and that's a combination of their take rate and fees for fulfillment and advertising, and it's up from about 40% five years ago. So that's really made more sellers feel dissatisfied because they're not able to even get the money that they're selling products for, and so maybe look to other channels to sell on. Not just Temu and Shein, but places like Walmart, which has launched another marketplace to compete with Amazon as well.

Sara Lebow:

It's really wild to be talking about Amazon as no longer the cheapest option. We did an episode on IKEA a while ago and we were talking about how IKEA started off as the cheapest furniture retailer and Amazon's really undercut IKEA, so IKEA is now seen as a little more high

end than some Amazon products. And now we have these companies undercutting Amazon, where Amazon is seen as a step more expensive than them. It makes me wonder where the bottom is.

Man-Chung Cheung:

Yeah, I think sooner or later something has to give. I think, just for Chinese companies, they often enjoy really close relationship with the manufacturers, so they're willing to sometimes bend over backward for them. In the case of Shein, I think they're able to ask the manufacturers to produce smaller batches compared to other retailers. So in that case, there's less waste. If something that doesn't sell, they're not going to lose as much. So that's the advantage for them.

Sara Lebow:

Also funny to be talking about Shein in terms of less waste because that's one of the biggest dings that fast fashion gets, but I get what you're saying, there's definitely less waste and less of an economic hit for them in terms of over merchandising.

Okay, let's keep moving. It's time for our segment Red Hot Retail. This is our guests' opportunity to give us their very specific and potentially risky predictions on a topic. The predictions can be mild, medium, spicy or extra hot. The higher the spice level, the riskier the prediction. Our guests will tell me what spice level to predict and then share a prediction. Today, Sky and Man-Chung are sharing four predictions for how retail will change in the US as a direct result of Chinese manufacturers. Sky, why don't you go first?

Sky Canaves:

So my first prediction is that, and this one is, I'm going to say medium spicy, but I think that TikTok, despite the success of its sister app Douyin in China, in e-commerce and social commerce and live-streaming, that TikTok is going to continue to stumble through its muddled commerce strategies in the US, before I think it will eventually find a winning formula, but that's going to take some time, and so far its efforts are not yielding a lot of success and I don't see them particularly taking off. So TikTok Shop is its real brand focused initiative targeting US merchants and brands just haven't been getting on board with that. They've done some private label efforts overseas, manufacturing their own products, or TikTok developing its own brands, particularly in fashion, and they're looking to expand into other lifestyle categories. I don't see that getting a huge amount of traction unless they really pick

up a winning Shein type of formula of connecting with thousands of manufacturers and I don't think they have that kind of manufacturing base.

And the other is they're looking at developing a Temu-like marketplace in the US, but at the same time, I think they'll be hampered because they don't have the same network of suppliers in China that Pinduoduo and Temu's parent company does and has been able to leverage for years to become one of the biggest e-commerce players in China. They've really focused a lot more on live-streaming and getting brands to sell in China, and that's been how they've gotten to where they are in terms of e-commerce success in China and that hasn't really played out the same way in the US.

And I think as it tries to keep pushing commerce with these new formulas, it can also potentially run into legal troubles if it's, for example, using the algorithm to promote its own products or using data from other brands and merchants to develop its own products. These are similar to some of the legal challenges that Amazon has faced as it's become both a marketplace and a competitor or to its sellers.

Sara Lebow:

Yeah, TikTok has done a really good job of turning its users into buyers, but there's only so far it can go there. We talk a lot about how Gen Z's shopping habits are still malleable, so more of them are willing to buy on social, but a lot of them, most Gen Zers are already adults, so their shopping habits are starting to firm up. I think it's going to take Gen Alpha aging into their own spending power for social buying to hit the next level. Maybe I'm looking too far ahead now. Okay, Man-Chung, why don't you give us another spice level and another prediction?

Man-Chung Cheung:

Okay, I'm going to start with a mild one. So with Chinese retailers, I think it goes without saying, putting more pressure on US retailers in terms of pricing, in terms of being able to launch new products and introduce them into the market. But I would say that you may see more products with 'Chinese characteristics'. So when you think about Japan is about the anime, the sushi, the cool culture. When you think about Korea, you think about K-pop, K-drum. So now you may see more Chinese product that are out there and that brings some soft power and prestige to Chinese brand. I think that's one that I've been thinking of. If you think about Uniqlo, how they have different animes on the T-shirts, that's just help introduce animes to the mass market.

Sara Lebow:

Following up on that question, what are the 'Chinese characteristics' that we can expect to see?

Man-Chung Cheung:

I think just micro innovation, like products that bring some little convenience, maybe a little bit more nuanced than what we're used to here. Smaller products that are more smartly designed, automated. So store it out there, a rice cooker that you can remote control with your phone, and all types of different settings, or a mop that automatically cleans itself, something like that.

Sara Lebow:

A rice cooker that you could remote control with your phone would be so perfect because before we started recording today, I was like, "I'm going to want lunch after this podcast. I should start my rice cooker now," and then I was like, "No, my rice will be overcooked by the time that we're done podcasting." So if I could use my phone to turn it on halfway through the podcast, that would've been perfect. Instead, I'm going to have to wait for my rice to cook after, so I'm all for that prediction. Sky, why don't you give us our next spice level, next prediction?

Sky Canaves:

So my prediction is pretty spicy and it follows from Man-Chung's last prediction of bringing more Chinese style products to the US. I think Temu is going to succeed in bringing a new form of social commerce to the US, not just the products, but how they're bought. And this is a concept of group buying that it really pioneered in China. This is a concept of group buying that Pinduoduo pioneered in China. And that's often been compared to Groupon, but a key difference is that Pinduoduo got people to buy by convincing them to get in on deals with their family, friends, social acquaintances, and that the more products were bought, the more that people were willing to order, the lower the price would go, so it would go lower and lower. So it was really much more gamified than Groupon and it involved people who you had some connection with as opposed to getting in on a deal with strangers.

So I think this commerce and group deal hunting has enormous potential to take off in the US among younger consumers. The TikTok generation that's looking on TikTok for Amazon finds

and deals of the day and discounts, I think that'll potentially be successful. It's pretty spicy, it's a little farfetched, but I think it could happen. And if anyone can do it, Temu will

Sara Lebow:

With group buying, are you all buying the exact same product or is it like I make a purchase and I say, "If you buy in the next two hours, you can use my 20% off code."

Sky Canaves:

That's more a referral part of the gamified social commerce that can certainly play into it, but the group buying would generally be for the same product and it can even fuel a on demand production where the product hasn't even been manufactured yet and you're putting in your order based on how many pieces are going to be ordered. The price is undetermined based on that.

Sara Lebow:

I don't think that's a wild prediction. That's really consistent with how influencing and celebrity works in the US already. The only reason that I'm a little hesitant on this is that we know that Gen Z looks for personalization and individualization, but there may be room for that within this kind of buying.

Sky Canaves:

Well, if everybody wanted to buy a remote controlled rice cooker.

Sara Lebow:

Then we could all make our rice after this podcast.

Sky Canaves:

In your group, you can convince all your friends to buy the remote control rice cooker. So not everything needs to be so personalized and I think there's room for good deals and we see limited edition type products from major brands and collaborations that sell out very quickly, so it's not entirely personalized, but just enough to make it special.

Sara Lebow:

Okay. Man-Chung, why don't you give us our final spice level, final prediction?

Man-Chung Cheung:

So this one is a little bit spicier, I would say in a scale of one to five, it's a five, so highly unlikely, but I'm going to put it out there anyway. So Amazon is going to be forced to introduce a new platform to attract younger audiences with more social commerce characteristics. So they could either look into launching a separate platform or perhaps acquire company like Pinterest or Snap or wish.com, but that's probably highly unlikely given that they're under antitrust scrutiny.

Sara Lebow:

Yeah, I think this is a reasonable prediction to some extent. I think that Amazon is still not, this is my personal opinion, super enjoyable to scroll, which I think makes it a good reason it might want to create a new Gen Z focused platform. It also might be a good reason it might not end up doing this because its priority isn't being super fun to scroll. But if it started a new format, a new platform, it could also sell ads separately on that format, sell retail media ads, which we know is a huge opportunity for Amazon, so it may be something they're eyeing.

Sky Canaves:

And we talked last week about their Inspire feed and how that's basically a TikTok copy targeting Gen Z, so I don't know that it's inconceivable that they would spin off a separate platform. I've often wondered when they were going to take the Alibaba type of approach of creating a purely branded higher-end premium platform like Tmall, which is a platform for branded storefronts, while Taobao was more the undifferentiated sellers and consumer to consumer sellers or small brands and merchants selling below cost goods and have that kind of split. But maybe they would look more towards targeting the younger generation with a more Temu style marketplace platform where everything is cheaper.

Sara Lebow:

Yeah, for the most part it doesn't feel like Amazon has capitalized on branded storefronts. Most of the brands' names on there feel like a collection of letters and numbers and words that aren't that recognizable. Since we talked about Amazon Inspire last week, Sky, have you revisited that platform at all?

Sky Canaves:

I have not, but I'm still thinking about the inflatable human-sized dog bed.

Sara Lebow:

I was just thinking about that today, how we talked about Inspire, we talked about how we never visited it, and I have not visited it since. Man-Chung, have you ever scrolled through Amazon Inspire?

Man-Chung Cheung:

This is the first time I heard of it. Like I said, my wife do my shopping for me.

Sara Lebow:

Okay, well that is all we have time for today. So thank you, Sky.

Sky Canaves:

Thanks, Sara.

Sara Lebow:

Thanks, Man-Chung.

Man-Chung Cheung:

Thanks for having me.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram @BehindTheNumbers_podcast. Thank you listeners, and to Victoria who edits the podcast. We'll be back next Wednesday with another episode of Reimagining Retail, an e-marketer podcast. And tomorrow, join Marcus for another episode of the Behind the Numbers Daily.