

Business Model Innovation of Cross-Border E-Commerce Platforms Under the "Dual Circulation" Strategy: Case Studies of Shein and Temu

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Abstract: This study explores how cross-border e-commerce platforms innovate their business models under China's "Dual Circulation" strategy, which prioritizes domestic economic resilience alongside international market integration. Through comparative case studies of Shein and Temu, the research analyzes how these platforms adapt their value propositions, supply chain configurations, and digital ecosystems to align with domestic demand stimulation and global expansion imperatives. Findings reveal that Shein leverages hyper-fast fashion cycles and AI-driven demand forecasting to balance domestic manufacturing agility with global consumer reach, while Temu capitalizes on ultra-low pricing and gamified social commerce to penetrate overseas markets while relying on China's industrial clusters. The study highlights the role of platform-driven data analytics, decentralized supply chains, and policy alignment in achieving "dual circulation" objectives. Practical insights are offered for e-commerce firms navigating geopolitical and economic uncertainties.

Keywords: Dual Circulation strategy, Business model innovation, Cross-border e-commerce, Shein, Temu

1. Introduction

1.1. Research Context

In the post-COVID-19 era, China introduced the "Dual Circulation" strategy, aiming to build a more resilient and self-sustaining economic system. This strategy emphasizes the synergy between the domestic and international markets. The domestic market, with its large population and growing middle class, is regarded as the mainstay of economic development, while the international market continues to play an important role in integrating global resources and expanding market reach.

Cross-border e-commerce has emerged as a crucial pillar of China's trade modernization. It not only provides a new channel for Chinese enterprises to access global markets but also enriches domestic consumption choices. The growth of cross-border e-commerce is driven by factors such as technological advancements, increasing consumer demand for international products, and supportive government policies.

Shein and Temu have emerged as global disruptors in the fast-fashion and budget-retail sectors respectively. Shein has revolutionized the fast-fashion industry with its ultra-fast production cycles

and global supply chain. Temu, on the other hand, has quickly penetrated Western markets through its low - cost products and innovative social - commerce models. Their success stories have attracted widespread attention and offer valuable insights into business model innovation in the cross - border e - commerce field.

1.2. Research Objectives

The primary objective of this study is to deconstruct the business model innovations (BMIs) of Shein and Temu under the "Dual Circulation" framework. By analyzing their value creation, delivery, and capture mechanisms, we can understand how these platforms adapt to the new economic strategy.

Another objective is to identify how these BMIs address domestic overcapacity and international market fragmentation. China's manufacturing industry has long faced the issue of overcapacity in some sectors. Cross - border e - commerce platforms can help absorb this overcapacity by selling products overseas. At the same time, the international market is fragmented, with different consumer preferences and regulatory environments. BMIs can help platforms better adapt to these differences.

Finally, this study aims to evaluate the role of digital technologies and policy incentives in enabling dual - market success. Digital technologies such as AI, big data, and blockchain have transformed the way cross - border e - commerce operates. Policy incentives, such as tax breaks and export rebates, also play a crucial role in promoting the development of cross - border e - commerce.

1.3. Significance

This research contributes to the BMI literature in cross - border e - commerce, especially in emerging economies. Most previous studies have focused on traditional business models in developed economies. This study provides new insights into how cross - border e - commerce platforms in China innovate their business models under a unique economic strategy.

For policymakers, this study offers valuable information on optimizing the implementation of the "Dual Circulation" strategy for small and medium - sized enterprises (SMEs). SMEs are the backbone of China's economy, and cross - border e - commerce can provide them with opportunities to expand overseas. By understanding the business model innovations of Shein and Temu, policymakers can design more targeted policies to support SMEs in the cross - border e - commerce field.

2. Literature Review and Theoretical Framework

2.1. Business Model Innovation in E-Commerce

Business Model Innovation (BMI) is a critical factor in sustaining competitive advantage within the e-commerce sector. As outlined by Osterwalder and Pigneur (2010), the three central pillars of BMI are value creation, value delivery, and value capture. Value creation involves identifying customer needs and developing products or services that address those needs. In the context of e-commerce, this includes not only product innovation but also service personalization, user experience optimization, and leveraging digital technologies to enhance engagement.

Value delivery, on the other hand, refers to the mechanisms through which firms deliver these created values to their customers. For e-commerce platforms, this often involves streamlined logistics, real-time customer service, and omnichannel strategies that integrate online and offline experiences. Finally, value capture pertains to how companies generate revenue from their offerings, whether through direct sales, subscription models, advertising, or data monetization.

With the proliferation of digital platforms, e-commerce businesses are increasingly able to integrate global and local markets, effectively managing the global-local paradox. Platforms such as Amazon, Alibaba, and Shopee have adopted flexible business models that allow for hyper-localization of services, while simultaneously accessing international consumer bases. These platforms serve not only as sales channels but also as ecosystems that enable data-driven decision-making, facilitating rapid

experimentation and continuous innovation.

2.2. *The "Dual Circulation" Strategy*

China's "Dual Circulation" strategy, formally introduced by the National People's Congress (NPC) in 2020, represents a significant shift in the country's economic development model. The strategy emphasizes the complementarity between domestic economic activity (internal circulation) and international trade and investment (external circulation). Its core rationale lies in strengthening domestic consumption, reducing reliance on foreign technologies, and enhancing resilience amid global uncertainties.

For export-oriented industries, the strategy encourages diversification of international markets and higher value-added exports, while simultaneously upgrading domestic supply chains. For the domestic market, the policy promotes improvements in consumption quality and structure, fostering innovation and digital transformation across sectors. As a result, companies must rethink their business models to align with both domestic policy goals and international market dynamics.

2.3. *Cross-Border E-Commerce Dynamics*

The evolution of cross-border e-commerce (CBEC) has been characterized by several notable trends:

- **Hyper-localization:** E-commerce firms are increasingly tailoring their products, marketing strategies, and services to meet the cultural, regulatory, and consumer preference nuances of local markets.
- **Supply chain decentralization:** Rather than relying solely on centralized production or warehousing, many platforms are investing in localized fulfillment centers and smart logistics networks that improve delivery efficiency and customer satisfaction.
- **Consumer data utilization:** The use of big data analytics, AI-driven recommendation systems, and predictive modeling has allowed platforms to understand and respond to consumer behavior more accurately, thus enhancing engagement and conversion rates.

Case studies such as Alibaba's AliExpress and JD Worldwide illustrate how Chinese firms are navigating the complexities of international markets. For instance, AliExpress has adopted a localized operations model in key markets such as Russia, Spain, and Brazil, offering region-specific interfaces and customer support. JD Worldwide, meanwhile, leverages its strength in logistics and quality control to target premium international segments, reinforcing trust and brand value.

2.4. *Synthesis: BMI Under Dual Circulation*

Integrating the concepts discussed above, the study adopts a theoretical framework that combines platform economy logic with the institutional imperatives of the Dual Circulation strategy. Platform economy logic emphasizes the role of network effects, modularity, and scalability in driving innovation and value co-creation. This is especially pertinent in e-commerce, where firms must constantly iterate and adapt to evolving market conditions.

At the same time, aligning business models with national policy objectives—such as fostering domestic demand and technological self-reliance—requires institutional awareness and flexibility. The interplay between these two dimensions necessitates dynamic capabilities, allowing firms to sense market shifts, seize opportunities, and reconfigure resources accordingly.

Through this synthesized lens, Business Model Innovation in the context of Dual Circulation is not just a commercial imperative but also a strategic response to evolving economic governance. The subsequent analysis will examine how specific e-commerce platforms embody this dual logic, offering insights into their strategic positioning and long-term sustainability.

3. Methodology and Case Analysis

3.1. *Research Design*

This study adopts a qualitative comparative case study approach (Yin, 2014), enabling an in-depth

exploration of how different business models in the Chinese e-commerce sector adapt to and align with the evolving institutional context of the "Dual Circulation" strategy. This methodology is particularly well-suited for examining complex phenomena in real-life contexts where multiple variables interact dynamically.

To ensure the robustness and triangulation of findings, the study draws on a diverse range of data sources, including:

- Company reports and financial filings, offering insights into business strategy, revenue models, and operational footprints.
- Policy documents and government white papers, providing context on regulatory frameworks and economic priorities.
- Industry analyses and academic literature, shedding light on market trends, competitive dynamics, and sectoral transformations.

Together, these sources enable a comprehensive understanding of how e-commerce platforms innovate their business models in response to both market forces and policy directives.

3.2. Case Selection

Two leading Chinese e-commerce platforms—Shein and Temu—are selected as comparative case studies due to their contrasting business models, global strategies, and relevance to the objectives of the "Dual Circulation" policy.

- Shein exemplifies an ultra-fast fashion platform that has successfully scaled globally while maintaining a "glocal" supply chain architecture. Headquartered in Guangzhou, Shein leverages China's highly responsive manufacturing base to rapidly adapt to international fashion trends, supported by data analytics and AI.
- Temu, a subsidiary of PDD Holdings, represents a budget-oriented e-commerce platform designed to penetrate Western markets through aggressive pricing and viral marketing strategies. Launched in 2022, Temu's "factory-to-world" model aims to capitalize on domestic production overcapacity and stimulate international demand by offering deep discounts directly from manufacturers.

These two cases provide distinct yet complementary perspectives on how Chinese platforms innovate and expand under the structural conditions of Dual Circulation.

3.3. Analytical Framework

The analytical framework is built upon two main components:

1. Business Model Canvas (BMC) Analysis: Each platform's business model is deconstructed using the nine BMC elements—Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure. This allows for a structured comparison of strategic approaches and operational choices.
2. SWOT Analysis in Relation to Dual Circulation: To assess alignment with national policy goals, a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is applied, focusing on each company's positioning within the domestic and global economy. Particular attention is paid to the ways in which business model innovations reinforce or challenge the internal-external circulation balance advocated by the state.

This dual analytical lens facilitates a nuanced evaluation of how business innovation intersects with institutional imperatives.

3.4. Findings

The comparative analysis of Shein and Temu reveals key patterns in how digital-first platforms navigate the evolving e-commerce landscape under China's Dual Circulation framework:

- Shein demonstrates a high degree of agility through its domestic production ecosystem, which is deeply integrated with digital tools for trend forecasting and inventory management. Its AI-

driven product design cycle allows for near real-time responsiveness to global fashion demands. This agility supports both internal industrial upgrading and external brand expansion.

- Temu, in contrast, operates on a cost-leadership model, positioning itself as a gateway for China's manufacturers to access Western consumers. By offering ultra-low prices enabled by domestic production overcapacity, Temu functions as a channel for absorbing supply surpluses, thus contributing to the internal circulation while generating external revenues.
- Policy synergies have played a facilitative role in both cases. These include tax incentives for cross-border logistics providers, export tax rebates, and customs clearance streamlining, all of which reduce barriers for outbound commerce and enhance platform competitiveness.

The findings underscore how each platform leverages distinct business innovations to serve complementary aspects of Dual Circulation: Shein focuses on high responsiveness and global branding, while Temu emphasizes production absorption and market penetration. Together, they illustrate the diversity and adaptability of China's e-commerce sector in aligning with national economic strategy.

4. Discussion and Implications

4.1. Strategic Alignment with Dual Circulation Objectives

The cases of Shein and Temu demonstrate two divergent yet complementary pathways of strategic alignment with China's Dual Circulation strategy. Shein illustrates how digitally-enabled value creation can elevate domestic supply chain capabilities and reposition Chinese brands globally, thus enhancing external circulation while stimulating internal industrial upgrading. In contrast, Temu's model showcases how platform-based demand aggregation can unlock latent manufacturing capacity, thereby serving internal circulation priorities while extending market reach abroad.

These cases suggest that business model innovation (BMI) in e-commerce is not a one-size-fits-all process. Instead, it is contingent upon the firm's core competencies, market orientation, and capacity to interpret and respond to evolving institutional signals. The state, in turn, acts not only as a regulator but also as a strategic enabler, shaping the landscape in which these innovations unfold.

4.2. Reconfiguration of the Global Value Chain (GVC)

Shein and Temu both represent a broader trend of reconfiguring traditional global value chains (GVCs) through digital platforms. Unlike conventional export models dependent on intermediaries, both platforms disintermediate the supply chain, facilitating direct-to-consumer (D2C) models that minimize lead times and reduce costs.

For Shein, this translates into a demand-driven GVC, where trend data from international markets is used to coordinate upstream production. For Temu, the GVC is supply-pushed, focused on clearing surplus inventory through deep discounting and gamified shopping experiences. These shifts signal a move toward more digitally integrated and feedback-sensitive global trade flows, consistent with the platform economy's logic of speed, scale, and data centrality.

4.3. The Role of Digital Infrastructure and Policy Support

Both platforms benefit significantly from China's robust digital infrastructure—including high mobile internet penetration, digital payment systems, and AI capabilities—as well as logistics innovations such as bonded warehouses and overseas distribution centers. Moreover, targeted policy interventions—such as export tax rebates, support for cross-border payment systems (e.g., RMB settlement), and relaxed foreign exchange controls—create an enabling environment for outbound e-commerce growth.

These cases suggest a strong synergy between business model design and macro-policy orientation, where private sector agility complements state-led structural goals. This public-private alignment is increasingly critical as China shifts from low-end export dependence to high-value digital trade leadership.

4.4. *Challenges and Limitations*

Despite their success, both models face key challenges:

- Sustainability and compliance risks: Shein has encountered scrutiny over labor practices and environmental impact, while Temu's ultra-low pricing raises concerns about long-term brand equity and quality control.
- Geopolitical tensions and protectionism: Heightened scrutiny from regulators in key markets (e.g., the U.S. and EU) may lead to greater barriers for Chinese digital exporters, including tariffs, digital taxation, or platform restrictions.
- Platform dependency and competition: As more firms adopt similar models, market saturation and commoditization may erode first-mover advantages. Both Shein and Temu must invest continuously in differentiation, innovation, and consumer trust.

4.5. *Implications for Policy and Practice*

For policymakers, the findings highlight the importance of fostering an innovation-friendly ecosystem that balances openness with regulatory clarity. Continued support for cross-border digital trade—through streamlined customs processes, data standards, and international cooperation—will be crucial.

For industry practitioners, these cases emphasize the need to build agile, data-driven, and globally aware business models that can flexibly respond to both policy shifts and consumer behavior. E-commerce firms must invest not only in technology and logistics but also in brand localization, ethical sourcing, and compliance frameworks to sustain long-term competitiveness.

5. **Conclusion**

This study explored the interplay between business model innovation (BMI) in China's e-commerce sector and the national Dual Circulation strategy, using Shein and Temu as comparative case studies. Through the application of a qualitative case study design, informed by Business Model Canvas (BMC) and SWOT analysis, the research uncovered how two distinct platform-based firms adapt their business logic to both market dynamics and institutional policy environments.

The findings reveal that:

- Shein exemplifies a demand-driven, AI-powered business model that leverages China's agile manufacturing ecosystem to serve global fashion markets. Its alignment with external circulation strengthens national goals around branding, industrial upgrading, and tech-enabled exports.
- Temu represents a cost-disruption model, designed to absorb domestic production overcapacity by directly targeting international consumers with aggressively priced goods. This supports internal circulation by boosting domestic utilization and enabling global outreach at scale.

Both platforms demonstrate the adaptive power of digital platforms in responding to evolving policy landscapes. They not only align their models with state-driven macroeconomic goals but also shape the very contours of digital globalization through localized consumer engagement, real-time data utilization, and logistical innovation.

However, the study also highlights emerging challenges, including concerns around sustainability, ethical sourcing, regulatory compliance, and geopolitical risks. These underscore the need for continuous strategic recalibration by firms and adaptive governance from the state.

5.1. *Theoretical Contributions*

This research contributes to the growing literature on platform economy and institutional embeddedness of innovation by demonstrating how business models in emerging economies are not merely reactive but strategically co-evolve with policy priorities. The integration of the Business Model Canvas with policy-aligned SWOT analysis offers a novel framework for analyzing firm-level adaptation under state-guided economic transformation.

5.2. Managerial Implications

For business leaders in the e-commerce and digital trade space, the findings suggest that sustainable growth under Dual Circulation requires:

- Leveraging digital infrastructure and data capabilities to improve responsiveness.
- Building resilient, decentralized supply chains.
- Navigating localization and regulatory expectations in target markets.
- Aligning with state priorities to benefit from institutional support and policy incentives.

5.3. Limitations and Future Research

This study focuses on two high-profile cases, which, while illustrative, may not capture the full diversity of China's e-commerce landscape. Future research could:

- Conduct comparative analyses across different sectors (e.g., digital services, agritech).
- Explore consumer-side behavior and perception in cross-border commerce contexts.
- Investigate the longitudinal evolution of business models in response to policy changes or geopolitical shocks.
- Extend the framework to other emerging economies adopting hybrid internal-external growth models.

In conclusion, the dynamic alignment between platform-driven innovation and state-driven strategy presents both opportunities and complexities. As China continues to refine its Dual Circulation framework, the role of digitally native, globally connected firms like Shein and Temu will be central to shaping the future of global commerce from a Chinese perspective.

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