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Why Chinese Apps Are the Favorites of Young Americans

It isn't just the algorithms, but lessons from a cutthroat culture

By [Shen Lu](#) [Follow](#) , [Karen Hao](#) [Follow](#) and [Raffaele Huang](#) [Follow](#)

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The concern around TikTok in Washington is drawing fresh attention to how Chinese apps have woven themselves into the fabric of young Americans' lives—and what makes them so popular.

Four of the five hottest apps in the U.S. in March were forged in China.

Algorithms are often cited as their secret sauce. An often overlooked facet is how cutthroat competition for users at home has given Chinese firms a leg up over Western rivals.

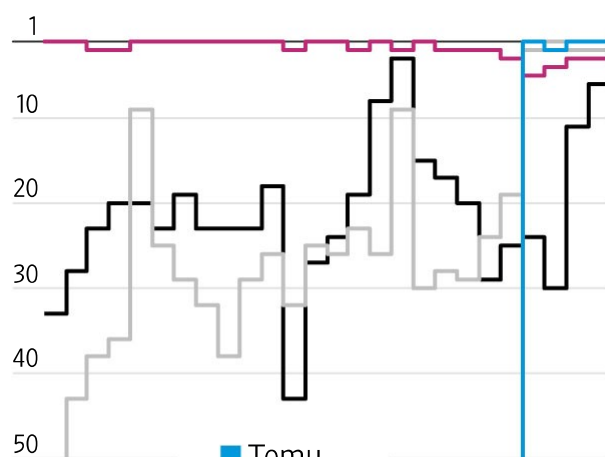
Much like during China's rise to manufacturing dominance a few decades ago, Chinese tech companies have harnessed a labor pool of affordable talent to constantly fine-tune product features.

The nonstop drive to get better even has a term in China's tech industry: "embroidery."

"Everybody works on improving their craft, stitch by stitch," said Fan Lu, a venture-capital investor who invested in TikTok's predecessor Musical.ly.

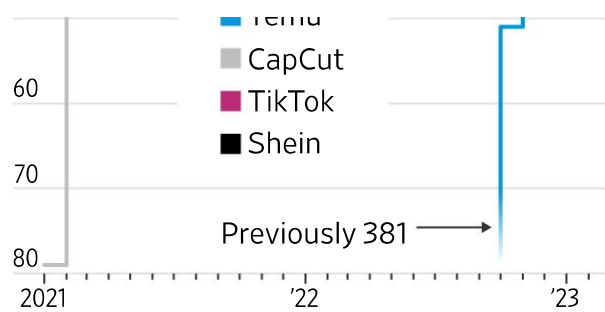
Seven-month-old Temu was the most downloaded app across U.S. app stores during the first three weeks of March, according to market-insights firm Sensor Tower. It was followed by TikTok's video-editing partner app CapCut and TikTok itself. Fast-fashion retailer Shein came in fourth. Then came Facebook, the only non-Chinese app among the top five.

Apple app store rankings of four popular Chinese apps, monthly



One illustration of how immersed American consumers are in an app ecosystem created by Chinese companies: Under the hashtags #temuhaul or #sheinhaul, Gen-Z shoppers have taken to display the result of their shopping sprees in TikTok videos with captions such as "\$50 worth of very RANDOM items on TEMU."

The apps came out of companies



Source: Data.ai

The apps came out of companies founded by a younger generation of tech entrepreneurs who are looking for global growth as China's firewalled market becomes saturated. They are backed by China's vast pool of tech talent: While Temu is a shopping site, more than half its workforce are engineers focused on getting people to swipe and buy.

Chinese internet companies' organizational efficiency is overlooked by their American competitors, say investors, engineers and analysts. The Chinese firms spend lavishly to push their apps in the U.S. They leverage China's one billion internet users to test user preferences and optimize their AI models at home, then export the tech overseas.

"They are totally killing it in markets where they need to constantly reiterate products to meet user demands," said Guo Yu, a former senior principal engineer at TikTok's parent ByteDance Ltd. who worked at the company between 2014 and 2020.

TikTok, ByteDance, Temu, its parent company PDD Holdings Inc., and Shein didn't respond to requests for comment.

Temu was the most downloaded app across U.S. app stores during the first three weeks of March.

PHOTO: LAM YIK/BLOOMBERG NEWS

The popularity of the apps has gotten them caught in the crossfire of U.S.-China geopolitical tension—TikTok in particular. The Biden administration has threatened a possible ban on the app if ByteDance doesn't sell its stakes in TikTok, citing national-security concerns. On Thursday, U.S. lawmakers pummeled TikTok's Chief Executive Shou Zi Chew about Beijing's potential influence over the app.

Beijing has opposed a TikTok sale and said it would never require companies to illegally gather data from overseas. Meanwhile, a bill gaining momentum in Washington would result in a blanket ban of broad categories of Chinese technology, including American teenagers' favorite apps, if it is passed.

Both Shein and Temu have sought to avoid the kind of scrutiny TikTok has come under by attempting to mark a distance from their Chinese roots. In 2021, Shein changed its parent company from a Hong Kong-registered firm to a Singapore-incorporated entity. Temu is based in Boston and runs its U.S. business through a Delaware-based company.

Shein, with a supply chain rooted in southern China's Guangdong province, was until recently the top-ranked shopping app in the U.S., according to Sensor Tower. Arriving in the U.S. just in time for last year's holiday shopping season, Temu raked in 13 million downloads in the fourth quarter, more than double that of Shein. Like Shein, Temu connects bargain hunters in the U.S. with China's manufacturers, offering lower prices by cutting out the middleman.

The companies use data to drive every decision.

Former ByteDance engineers say ByteDance is one of the most aggressive in executing a strategy known within the industry as "horse racing," where multiple teams are assigned to build the same product or feature with slight variations. Once it becomes clear which version is performing better, the winning team is given more resources while the other versions are scrapped, these people say.

“People sometimes said the company was heartless because no one had complete control over a product design from start to finish,” Mr. Guo said.

ByteDance product managers and engineers also say the company has standardized protocols, systems and detailed metrics to assess what users like, which help it roll out new updates in a matter of days. TikTok’s signature single column scroll, for example, was a design it settled on after creating several user interfaces, including a two-column version similar to Instagram’s explore tab, current and former ByteDance employees say.

Behind the ruthless testing, reiterations and surveys for user feedback are long hours clocked by tech workers, who can get paid out several additional months of salary in bonuses based on their performance and output. Temu’s parent PDD, in particular, is known in the industry for demanding hours.

PDD has said its 2022 research and development investment jumped 15% from a year earlier, with much of it going to luring talent.

PDD’s quarterly sales and marketing expenses often exceeded its revenue between 2017 and 2020, when active buyers on Temu’s Chinese sister platform Pinduoduo more than tripled from 244.8 million buyers to 788.4 million. The company, which makes money primarily from advertising, first turned a profit after it went public in the second quarter in 2021.

Temu, like Pinduoduo and Shein, liberally doles out coupons and other incentives for downloading its app, hoping users will talk up the apps in their social networks. Marketing campaigns for Temu attempt to reach potential buyers in almost every channel, from Facebook banners to targeted emails. In February, Temu aired its first Super Bowl commercial.

Industry players say a push to dominate advertising is standard practice in China to win customers. “When Chinese companies see an opportunity, they are more willing to buy traffic at a much earlier stage and on a much bigger scale than their U.S. counterparts,” said Ivy Yang, a China tech analyst who formerly worked for e-commerce behemoth Alibaba Group Holding Ltd.

Chinese companies’ attempts to expand internationally haven’t always had
success. Alibaba’s international online marketplace, AliExpress, has

runaway success. Alibaba's international online marketplace, AliExpress, has been around for 13 years, but is far from a household name in the U.S. The first product ByteDance tried to push overseas, TopBuzz, a news aggregator, was a flop. The company later wound down the business.

For Temu, the current breakneck growth isn't met with just plaudits; it has attracted consumer complaints about delayed shipping and poor product quality.

For now, Temu's wired earbuds or dog leashes selling for less than \$2 are having a moment capturing the attention of inflation-weary Americans.

"The 2008 financial crisis spurred Chinese manufacturers to sell on Amazon," said Mr. Fan, the venture-capital investor. "It's Temu's time to shine now."

Write to Shen Lu at shen.lu@wsj.com, Karen Hao at karen.hao@wsj.com and Raffaele Huang at raffaele.huang@wsj.com