

## **Explosive Growth of SHEIN in the Global Market**

### **Introduction to SHEIN**

In 2008, Chris Xu (许仰天, Chinese name) established the fashion e-retailer company SHEIN in Nanjing, China. Since then, SHEIN has been concentrating on market sales outside Mainland China. SHEIN is now a global fashion and lifestyle e-retailer under 10 brands in more than 200 countries and regions. Before the USD 1 billion of venture capital (VC) fundraising in the early months of 2022, SHEIN kept itself mysterious, offering little public information, and unwilling to attract attention from the public.

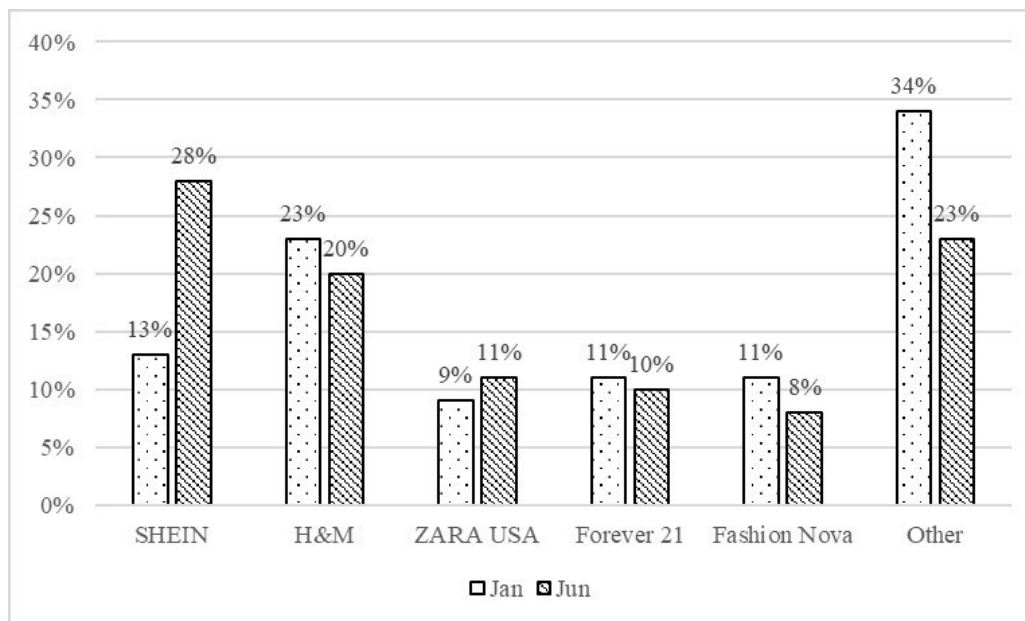
Taking advantage of social media, especially the rise of short-video apps such as TikTok, SHEIN expanded to provide clothing, tops, dresses, beachwear, activewear, shoes, accessories, and beauty products under 10 of its own sub-brands for Generation-Z (Gen-Z) consumers worldwide. Gen-Z are growing up with social apps such as Instagram and Pinterest. They are becoming more receptive to information from social media. Therefore, it is not difficult for SHEIN to conduct a social media marketing strategy when Gen-Z are their main target customers.

In May 2021, the SHEIN app became the most downloaded app in shopping categories in the United States (Matsakis et al., 2021). Later in 2021, the SHEIN app became the second most popular shopping app in the world, following the Amazon app (Inpander, 2022). In May 2022, the SHEIN app on the Apple iOS platform in 54 countries and Android platform in 13 countries became the most downloaded app, surpassing social apps such as TikTok, Instagram, and Twitter, and coming in well ahead of the Amazon app (Shu, 2022).

Owing to digital media platforms such as websites and apps, SHEIN's revenue increased from USD 600 million in 2016 to USD 10 billion in 2020, with a 250% growth rate in 2020. SHEIN's app has over 10 million active users. Digital marketing channels and networks enabled SHEIN to quickly respond to the impact of the COVID-19 pandemic that began in 2020 and to transcend the international brands, which rely heavily on offline stores. As shown in Figure 1, in 2021, SHEIN surpassed H&M and ZARA to become the largest fast fashion retailer in the United States. To become a global fast fashion superpower, ZARA required 47 years, whereas UNIQLO (a Japanese fashion brand) required nearly 70 years. Nevertheless, it took SHEIN only 10 years to catch up to become a behemoth in the fashion industry.

Figure 1. The Market Share of Key Brands in the U.S. Fast Fashion Market in the First Half Year of 2021

A bar graph shows a comparison of the market share of brands in US Fast-fashion market.



Data source: SHEIN Now Leads Fast Fashion <https://www.earnestresearch.com/data-bites/shein-leads-fast-fashion/>, accessed on 15 October, 2022.

### Long Description

SHEIN generated USD 15.7 billion in revenue in 2021 by relying on ultra-low prices and the ultra-fast speed of new products. SHEIN is one of the few Chinese consumer brands to successfully penetrate the U.S. and European markets. Ultimately, SHEIN has grown into a behemoth valued at up to USD 100 billion. Of the non-public Chinese firms in any stock market, only TikTok, Ant Financial, and Alibaba Cloud, recognised as three Chinese high-tech unicorns, have achieved this market value (before IPO).

### SHEIN's Development History

Since the start-up was founded by Chris Xu in 2008 in Nanjing, China, the development of SHEIN can be divided into four stages.

1. The initiative stage, from 2008 to 2012. After graduating from Qingdao University of Science and Technology, Chris Xu (Xu Yangtian) worked as a search engine optimisation (SEO) consultant for an online marketing firm. In 2008, Chris Xu founded Nanjing Dianwei Information Technology Co., Ltd, which he, in 2009, transformed into a cross-border e-commerce company specialising in the sale of affordable wedding dresses. The firm gained profit through selling Chinese wedding dresses to international markets via the internet.
2. The trial stage of social media, from 2012 to 2015. With the domain SheInSide.com, Chris Xu transitioned the international business from wedding dresses to women's fast fashion in 2012. Owing to Xu's expertise in SEO, SHEIN has advertised and promoted its clothing via the key opinion leaders (KOL) on social media since 2011. These activities on social media

have brought a high volume of sales to SHEIN, increased the diffusion of SHEIN brands among consumers, and reduced the advertisement costs. In response to the rapidly expanding market, Xu updated its strategies at the end of 2014 by building and reimagining SHEIN from SheInSide and establishing it as its own women's clothing brand with its own supply chain. In the same year, SHEIN acquired the brand Romwe, which brought in new users and followers.

3. The stage of branding with its own supply chain, from 2015 to 2019. In 2015, the core department of SHEIN relocated to Panyu, Guangdong, to utilise Panyu's garment manufacturing advantages to integrate and optimise its own supply chain. SHEIN strengthened the cooperation with high-quality suppliers through 'small order quick return' (small batch first order, multi frequency replenishment), and an information technology management system. Furthermore, SHEIN invested heavily in its social media strategy through collaborating with popular celebrities, coupled with the power of user generated content (UGC) to increase the mass awareness of SHEIN brands and inspire impulse purchases.

4. Explosive growth stage, from 2019 to now. After several years, SHEIN established its digital strategy and business model, including the strategic use of Google Trends and hashtags on social media platforms. The direct-to-consumer (DTC) model, based on a website, app, and social media platform, helped SHEIN to generate its operational advantages in the global fast fashion industry. When the COVID-19 pandemic emerged, the company was perfectly situated to benefit from the growing online shopping demand. The ultra-fast change and ultra-low-priced items lured buyers to shop more on the SHEIN platform. As a result, SHEIN has altered the landscape of online fast fashion shopping throughout the world.

Since its establishment, SHEIN has adopted the process management mode. The key top management team of SHEIN is stable. In addition to CEO Chris Xu, the team is composed of Miao Miao (chief marketing officer, CMO), Ren Xiaoqing (head of the supply chain centre), Gu Xiaoqing (head of the commodity centre), and Xu Hao (chief technical officer, CTO). All officers have served in the firm for a long time. The number of SHEIN employees has grown from around 50 before 2013 to more than 25,000 in June 2021.

## **The Success Code of SHEIN**

SHEIN has become the most successful, recognised, and well-funded fast fashion e-retailer worldwide due to its rapid response and price advantage based on the powerful supply chain system, the reverse geographical arbitrage strategy, and DTC business model based on digital strategies, including social media platforms (Han et al., 2022; Yang & Haiyan, 2022).

### Agile Supply Chain System

Many factors contribute to SHEIN's success, but the most important factor is SHEIN's extreme control over the supply chain. SHEIN can become one of the few Chinese consumer brands to compete with ZARA, H&M, Forever 21, and other fast fashion retailers in the U.S. and European markets, by manufacturing at a low cost and launching new items quickly. These tactics depend on the agile supply chain and its efficient supply chain management, enabling SHEIN to make on-time adjustments in procurement, production, logistics, and marketing on the basis of end consumers' needs.

Generally, in each season, each fast fashion retailer will decide the current popular elements and design sample clothes according to the study of historical sales data and customer needs. Then fast fashion firms will ask the garment manufacturer to produce and test the new styles on a small scale. Finally, the firm will rely on consumer feedback on whether to produce the style at a large volume or not. Take ZARA as an example. Every season, ZARA's garment manufacturers produce 500 pieces of each new style design of clothing, and a small-scale offline test is conducted at the Spanish headquarters of ZARA. After passing the test, the new item will be launched to the market. The whole process from design to launching is limited to 14–20 days.

SHEIN responds in real time to trends identified by analytics software that combs through shopping and social media websites, rather than trends identified by fashionistas and designers. SHEIN uses Google Trends and other data to identify new clothing trends in advance, and the trend will be deconstructed into a variety of elements such as collar, cuffs, hem, colour, material, and printing. Designers only need to arrange and combine these different elements to obtain multiple new styles. In the style test, SHEIN compels garment manufacturers to accept the small scale of order lower than 100 pieces. This means that ZARA can only test 2 models with the same test quota of 1,000 pieces, whereas SHEIN can test 10 models. With the help of social media platforms, rather than offline stores, SHEIN can collect consumers' feedback more quickly, adjust the style in time and put it into production as soon as possible. From the design of sample clothes to their production and delivery, the product cycle of SHEIN can be shorter than 7 days, which is a super-fast new style of launching. In 2020, 600,000 new models were added to SHEIN, which is 40 times the number of new models added to ZARA.

The successful operation of the agile supply chain system of SHEIN is also dependent on its cloud-based supply chain management system. SHEIN uses on-demand manufacturing technology to connect suppliers to its agile supply chain. Relying on the well-established industrial infrastructure of the Chinese textile industry with a high degree of marketisation, industrial clusters and networks, and skilled workers, SHEIN has built and improved its manufacturing capacity concentrated around Panyu, Guangdong, a textile manufacturing cluster in China.

Supported by a sound domestic manufacturing system, SHEIN is operating a wide platform attracting roughly 6,000 Chinese garment factories. SHEIN is the focal actor of the platform. It combines garment factories with proprietary internal management software that collects near-instant feedback on which items are hit or miss, enabling SHEIN to order new inventory on demand. With support from its strategic manufacturing partners in China, SHEIN can produce and test thousands of different products at the same time. Each supplier of SHEIN has its own account on the platform. This account will release information about which styles are bestselling and can quickly identify which styles may become popular in the future.

The software contains simple design specifications to help manufacturers quickly execute new orders. Based on data collected from around the world, it added 2,000 to 10,000 stock keeping units (SKUs) to its applications every day during the period of July to December 2021. SHEIN expects each garment factory (supplier) to do small-batch production runs. As a result of this integration, product lines that sell well are automatically reordered in larger volumes. SHEIN calls the system a 'large scale automated testing and reordering (LATR) model'.

### Reverse Geographical Arbitrage: Adopting the Chinese Model in Overseas Markets

Geographical arbitrage refers to the use of an information gap to export the successful business model from mature and advanced European and U.S. markets to the emerging markets in order to obtain financial benefits. However, SHEIN has reversed the business model using the online network traffic that is popular in China to European and U.S. markets. Using the digital marketing strategy, and supported by super cheap products, SHEIN has built and improved its image and awareness in the U.S. and European market, focusing on the Gen-Z demographic.

Amazon has been largely responsible for popularising online shopping among Americans, which stimulated the demand for online shopping, and cultivated this habit. SHEIN realised this and decided to optimise it. Social media tactics have won over 'eco-conscious' Gen-Z. SHEIN has employed a gaming e-commerce model, which is characterized by live broadcasts, flash purchases, and attractive pop-up windows, which entice consumers to scroll through the latest products. With the power of the UGC on social media platforms, such as TikTok and Pinterest, SHEIN has devised a marketing model of impulsive buying and addictiveness. SHEIN has made social media its most effective promotional channel and transformed online shopping into a form of online entertainment.

In addition, SHEIN was one of the first companies worldwide to collaborate with celebrities to promote their products. SHEIN understands the consumer psychology of the target group, Gen-Z, and knows how to attract their attention on social media. SHEIN relies on micro-influencers because they're fairly inexpensive to employ, and their messages are perceived as more credible by average consumers. SHEIN carried out publicity and promotion on international social platforms such as Facebook, Twitter, and Instagram. Concurrently, SHEIN reached a deep level of cooperation with these social platforms. In addition, SHEIN has collaborated with renowned designers to create joint brand cooperation models for global customers.

Today, only a few Gen-Z users on social media are not familiar with SHEIN. SHEIN's digital strategy seemed to have paid off in August 2021 when its website had 150 million visitors, 40% of which came from an internet search, whereas Zara's proportion was 4%. On social media, the company works with numerous micro celebrities, fashion bloggers, and contestants from reality TV programmes, such as Bachelor, who show off fashion clothes in videos posted on TikTok and Instagram.

### Direct-to-Consumer Model Conducted by SHEIN

The digital platform allows SHEIN to conduct the DTC model, a new retail business model. As in other explosive organizations, the DTC model contributes to the success of SHEIN. DTC means ‘selling goods directly to customers’ based on digital technology, which has the characteristics of decentralisation and customers at the centre. It reduces any third-party retailers, wholesalers, or intermediaries, and saves the cost of intermediate goods. DTC brands can obtain control of the entire sales process, specialising in a specific product category. Compared with traditional sales models, with emerging digital technologies, the DTC model provides brands with opportunities to be closer to consumers, pay more attention to the study of consumer behaviour, and establish a direct connection and relationship with target markets and customers built on trust. It truly reflects the customer-oriented model and can better control inventory and value chain.

The SEO working experiences of SHEIN’s founder, Chris Xu, allowed the company to comprehend and master the benefits of digital marketing. The DTC model, integrating the use of social media technology, cloud technology, SEO, and other technologies, enables SHEIN to realise the direct link between manufacturers and consumers and improves marketing efficiency. SHEIN quickly and precisely identifies and select customers at the low end of the market by utilising its own online platform and app to power incredibly inexpensive products. The DTC model helps SHEIN deliver a variety of affordable products to customers around the world and improve its strong profitability and sustainable business ability.

On the one hand, SHEIN bears most of the supply pressure. SHEIN’s payment terms start with 30 days, which is much shorter than standard payment terms to garment factories. Therefore, SHEIN builds a strong supply chain and does small-batch production runs to suppliers, such as ‘delivery within 40 hours for spot products and delivery within 5 days of stock’, while the average delivery cycle of stock in the fast fashion industry is usually 15–20 days. On the other hand, SHEIN has learned and adapted ZARA’s strategy on process innovation as well as covering design, shipment, and category expansion. Different from ZARA, SHEIN has no offline shops. Therefore, SHEIN has lower costs and shorter production cycles than ZARA.

The DTC model can be recognised as a just-in-time model. It translates to high speed and low cost, which enables SHEIN to tie up little cash in inventory, ship directly from China by third-party logistics operators, and eliminate physical stores. Thus, there is no heavy capital pressure on the growth of SHEIN. Additionally, empowered by influencers on social media, low prices, and thousands of new items, SHEIN has a high repeat purchase frequency. Moreover, based on the DTC business model, SHEIN is now supporting individual fashion designers to run special lines solely for SHEIN.

## **Summary: What Next?**

SHEIN commits to making the beauty of fashion accessible to the world. With the advantages of the DTC model based on digital technology and the strong and fast supply chain system and management, SHEIN has built its global super fashion brand, and has disrupted the market position of global players, such as ZARA and H&M. SHEIN has joined the USD 10 billion brand club after meeting the needs of Gen-Z with rock-bottom pricing, and growing dominance in mobile apps and mainstream social media.

However, SHEIN is facing criticism its activities on intellectual property, social responsibility and environmental protection. Some media reporters and environmental groups have condemned it for contributing to soaring levels of clothing pollution and for the non-friendly work environment in factories because of the ultra-cheapness of SHEIN products. Textile materials which SHEIN used are not easy to be recycled, which will increase the environmental protection pressure during the disposal process.

SHEIN has launched several social and governance strategies in response to the challenges associated with the United Nations Sustainable Development Goals. For instance, SHEIN has launched the brand MOTF, which uses high-quality and more sustainable fabrics, such as 100% cotton, to create a water and waste management system in its supply chain to reduce inventory waste. However, how does SHEIN control and manage the sustainable development of outsourcing in its supply chain? And how can it achieve sustainable development of the company and enhance its brand status with the commitment to the UN Sustainable Development Goals, following the global sustainable fashion trend? SHEIN still has a long way to go to make a sustainable transition.

### Questions

1. Why did SHEIN select foreign markets rather than local markets? What are the factors driving SHEIN's explosive growth?
2. How does SHEIN support its DTC model through supply chain management?
3. What advice would you offer to help SHEIN sustain its success?

Please provide the "Honour Declaration Form" in Appendix of your assignment.