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Shein: The (not so?) Shining Growth of Ultra-Fast Fashion

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Abstract. This case is centered on the Chinese online fashion retailer Shein. Created in 2012, Shein quickly grew to become an internationally known brand without physical premises, selling products nearly all over the world. The case presents Shein's international development, examines how the firm revolutionized fast-fashion models by creating a so-called "ultra-fast fashion" model, and explores the underlying multifaceted reasons for its enormous success. The case also describes the limitations of this model, which may eventually hinder Shein's future growth. Instructors in international business, strategy, digital transformation, supply chain or marketing may use this case to highlight the challenges facing a global company in a competitive industry which developed a new kind of business model, and strategies to maintain the firm's success under growing criticism.

Keywords: international strategy, sustainability, supply chain, blue ocean strategy, social media marketing.

1. Shein, from Zero to Now

Shein (pronounce She-in) is a Chinese online fashion retailer part of the Zoetop Group. Created in 2012 by Chris Xu (Xu Yangtian in Chinese), an American-born graduate of Washington University, Shein specializes in ultra-low priced clothes targeting Generation Z (i.e., those born between 1997 and 2012 or so[1]). By 2022, exactly 10 years after it started, the firm was employing 10,000 people worldwide and selling in more than 150 countries[2], with offices in China, Singapore, and the USA[3]. Its online model has enabled it to benefit from the Covid-19 pandemic, which sped up the adoption of digital technologies by several years[4] and shocked the apparel industry by March 2020, when its competitors' outlets were forced to close, and customers turned to online shopping. As a result, Shein's sales soared, its estimated turnover going from $10 billion in 2020 (a meteoric 250% increase

1. https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/
2. Figures provided by the company - https://us.shein.com/About-Us-a-117.html
3. https://www.wired.com/story/fast-cheap-out-of-control-inside-rise-of-shein/
4. https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-new-digital-edge-rethinking-strategy-for-the-postpandemic-era

from 2019 and the eighth consecutive year-on-year increase above 100%[5]) to $19.1 billion in 2021[6]. This performance is even more astounding considering that, at the same time, its closest online competitors, Asos and Boohoo, respectively, sold $4.4 billion and $2.5 billion in 2020 while also benefiting from the worldwide lockdowns[7].

Not listed on the stock exchange, Shein reportedly raised between $1billion and $2 billion in private funding in April 2022.[8] This outstanding amount values the company at no less than $100 billion, making it the world's third highest-valued start-up in the world behind SpaceX and ByteDance[9] (TikTok's owner) and valued more than the combined worth of fast-fashion giants H&M and Zara.

In barely 10 years, Shein has thus become a behemoth in the world of apparel, one that even overtook Amazon as the top shopping app in Apple's and Android's stores in May 2021[10].

2. The Early Days

Retracing Shein's history is not easy as the company is known for its high level of secrecy. For instance, CEO Chris Xu has never delivered any interview, and before 2019, most people working in the major suppliers for leaders of the apparel industry (e.g., Zara or H&M) had barely or never heard of him[11]—such that some even doubt he actually existed[12]. However, the increasing visibility of the firm over time has provided a few details about its early days.

Before he created Shein, Chris Xu started a marketing and cross-border e-commerce business in 2008 called Nanjing Dianwei Information Technology, along with two others, Wang Xiaohu and Li Peng[13] (Xu and Wang each owned 45% of the business, with Li holding the remaining 10%). A more technical person, Xu was in charge of marketing and search engine optimization (SEO). A little more than a year after the company's creation, though, Wang arrived at the office to find Xu gone. He became concerned after noticing that several company passwords had been altered. Li and Wang later learned that Xu had defected to continue in e-commerce alone[14] with a company called ZZKKO[15]. Indeed,

5. https://mp.weixin.qq.com/s/h9s4yHmq18PrOc47WpEC6g
6. https://www.statista.com/statistics/1317676/shein-estimated-gross-merchandise-value/
7. https://www.businessofbusiness.com/articles/rise-shein-100-billion-fast-fashion-scandals/
8. https://www.wsj.com/articles/shein-valued-at-100-billion-in-funding-round-11649126740
9. https://www.statista.com/chart/19317/highest-valued-startup-companies-in-the-world/
10. https://www.businessofbusiness.com/articles/rise-shein-100-billion-fast-fashion-scandals/
11. https://kr-asia.com/decoding-shein-the-rise-of-chinas-newest-retail-decacorn-part-1-of-3
12. https://www.elmundo.es/loc/celebrities/2019/10/08/5d9b2f4c21efa04e748b464a.html
13. https://www.elmundo.es/loc/celebrities/2019/10/08/5d9b2f4c21efa04e748b464a.html
https://www.wired.com/story/fast-cheap-out-of-control-inside-rise-of-shein/
14. This story is Wang's version only. When asked about it, Shein's spokesperson explains that Xu and Wang "separated peacefully" (https://www.wired.com/story/fast-cheap-out-of-control-inside-rise-of-shein/).

through this first experience, Xu realized how valuable selling Chinese goods online to overseas markets was and intended to push forward.

Shein started soon after this. Its early days are a bit unclear. Although some refer to 2008 as the starting point, others (including Shein's website) state 2012. The website Sheinside.com was registered in March 2011[16] and started selling in 2012. At first, it specialized in wedding dresses for US and English-language shoppers but quickly expanded to women's fashion. Though Xu had no specific interest in fashion, he had identified an opportunity to sell cheap clothing to middle classes that had suffered profoundly due to the 2008 financial crisis. The name was changed to Shein.com in 2015 (a year full of many changes for the firm) to make it more memorable and searchable for shoppers.

To support its development, the firm raised funds in 2013, 2015, 2018, 2019, and 2020[17], with its latest round in 2022, when it reached its $100 billion valuation. In 2019, Shein also considered being listed before eventually backing out because of the financial markets' conditions and the tensions between China and the United States[18] (in addition, this would have exposed the firm much more to public scrutiny compelling it to provide more information about its model, revenues, etc.).

3. A Progressive But Solid International Development

Targeting America First

Shein sells its products in more than 150 countries (its largest market being the US), with one major exception: China, its home country. Indeed, selling there would mean addressing an extremely competitive market and going head to head with Alibaba, the industry's leader. Moreover, according to Erin Schmidt, a senior analyst at Coresight Research (a global advisory and research firm specializing in retail and technology), "*It's not lucrative for them to sell in China*" because "*these products that would seem cheap to us are not as cheap to [consumers] in their home country*[19]."

Therefore, Shein has prioritized exporting goods (not just women's clothing, but cosmetics, shoes, purses, and jewelry) abroad from day one. Although it opened websites in Spain, France, Russia, Italy, and Germany early in the 2010s[20], it started with the United States, an attractive market given its

15. https://pandayoo.com/2021/02/18/an-incomplete-business-story-about-shein/
16. https://www.wired.com/story/fast-cheap-out-of-control-inside-rise-of-shein/
17. https://kr-asia.com/decoding-shein-the-rise-of-chinas-newest-retail-decacorn-part-1-of-3
18. https://www.lesechos.fr/industrie-services/mode-luxe/shein-le-chinois-qui-pese-plus-lourd-que-zara-et-h-m-reunis-1398224
19. https://edition.cnn.com/2021/08/14/business/shein-china-fast-fashion-intl-hnk/index.html
20. https://www.vox.com/the-goods/22573682/shein-future-of-fast-fashion-explained

population's size, diversity, and clothing tastes[21]. This is where many products are first launched, providing a real-time test of their potential success[22].

While the deterioration of Sino-American trade relations presumably hampered its stock exchange projects, it benefited Shein's operations in the US. When the US imposed additional tariffs in 2018, China began exempting direct-to-consumer companies from export taxes[23]. Because Shein ships orders directly to customers from Chinese warehouses, small-value shipments (worth less than $800) were duty free. Accordingly, Shein avoided export and import taxes for nearly three years, while its brick-and-mortar competitors had to pay them[24].

Learning from the Middle East to Expand to Other Countries[25]

Shein entered the Middle East market in 2015. This was a big challenge because the region strongly differed from the US and other markets that Shein was already covering. First, the logistics were different. A report from The Late Post explains, for instance, that "*Saudi Arabia is sparsely populated, with many customers having imprecise or inaccurate addresses, which makes last-mile delivery difficult*[26]." In addition, customers usually favor cash-on-delivery payments over e-payments. To deal with cash payments, Shein partnered with Naqel, a local company, but took care of logistics to keep costs down. Finally, the customers in those countries expect high-quality products, forcing companies to focus on quality control to ensure repurchases, reduce marketing costs per order, and cut return rates.

However, Xu was aware that Middle Eastern customers usually buy more than those in other markets, with basket sizes averaging $150. He believed that entering these markets could be both very profitable and a source of learning that could then be applied to other markets. His bet proved fruitful. For instance, the ratio of cash-on-delivery orders Shein received was 30% against a 60% average for Middle Eastern online retailers. Customers seemed happy with the products they received because 2016 revenues rose to $617 million and surpassed $1.5 billion in 2017. In 2018, 30% of Shein's sales came from the US, 20% from Europe, and 20% from the Middle East, with the remaining 30% coming from a mix of other countries.

Drawing from this successful experience, Shein expanded into other markets, such as India. This was even more difficult, though, because poor local logistics infrastructure generated high return rates and many complaints. Shein created a

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21. https://kr-asia.com/decoding-shein-the-rise-of-chinas-newest-retail-decacorn-part-1-of-3
22. https://yiqinfu.github.io/posts/shein/
23. https://www.bloomberg.com/news/articles/2021-06-14/online-fashion-giant-shein-emerged-from-china-thanks-to-donald-trump-s-trade-war?sref=ExbtjcSG
24. https://www.vox.com/the-goods/22573682/shein-future-of-fast-fashion-explained
25. Most of what is described in this section comes from: https://kr-asia.com/decoding-shein-all-the-world-over-part-3-of-3
26. https://kr-asia.com/decoding-shein-all-the-world-over-part-3-of-3