

# Value-Creation Strategy of Nanjing SHEIN

Linglin Zhang<sup>a,\*</sup>, Yunlan Gou<sup>b</sup>

Shanghai University, Shanghai, China

<sup>a</sup>779712608@qq.com, <sup>b</sup>andreagv@163.com

\*corresponding author

**Abstract:** As a unicorn enterprise of cross-border e-commerce in China, SHEIN has been established for 10 years and has maintained a rapid growth of 100% turnover for several years. As a natural international enterprise, the success of SHEIN in the international market can attribute to the implementation of its value creation strategy. Based on this, this paper focuses on the analysis of the low cost and differentiation strategies used by SHEIN during its international expansion, and then evaluates from the positive and negative dimensions according to the effect of strategic implementation. Lastly, this paper puts forward some recommendations and their possible impact on financial performance of the company.

**Keywords:** Low cost strategy, Differentiation strategy, Supply chain

## 1. Company Profile and Internationalization Process

### 1.1 Company Profile

Founded in July 2008, SHEIN is the largest cross-border fast fashion e-commerce company in China. At present, the company has Nanjing, Guangzhou, Shenzhen, Changshu, the United States (e-commerce commodity center branch, North American warehousing logistics center), Belgium (European warehousing logistics center), Dubai (branch) and other branches. SHEIN is a cross-border e-commerce platform, focusing on women's wear, mainly for Europe and the United States, the Middle East, India and other consumer markets, the sites cover the United States, France, Russia, Germany and other countries, goods sold to more than 200 countries. Sales in 2019 amounted to \$2.83 billion, mostly from overseas markets.

### 1.2 Internationalization Process

The course of internationalization is divided into four stages, mainly involving three markets: starting in Europe, developing in America, growing in India and the Middle East.

(1)Initial phase of internationalization: The B round of financing was completed in 2015, with the acquisition of two major competitors, the MAKEMECHIC from America and the ROMWE from China, which significantly increased the market share of North America, established a customer service center in the United States, and set up sites in Australia, the Middle East and India. The company is positioned as a "cross-border fast fashion Internet company ", taking the first step of internationalization.

(2)Accelerating internationalization: In 2017, small language countries were locked in as a new market to expand vigorously. In April of the same year, business covered 224 countries and regions around the world, and internationalization entered an expansion period.

(3)Occupying main international markets: SHEIN is one of the top ten Chinese cross-border e-commerce App with the highest number of downloads in 2018. With its own "fast ", " fashion ", " brand power" three core advantages, stable international market position.

(4)Striving to be a world-class brand: Up to now, SHEIN has completed four rounds of financing, the total amount of financing exceeds 320 million yuan, its App downloads exceed 100 million, international active users reach more than 20 million, SHEIN has become a fast fashion brand with international influence, catching up with ZARA is within reach.

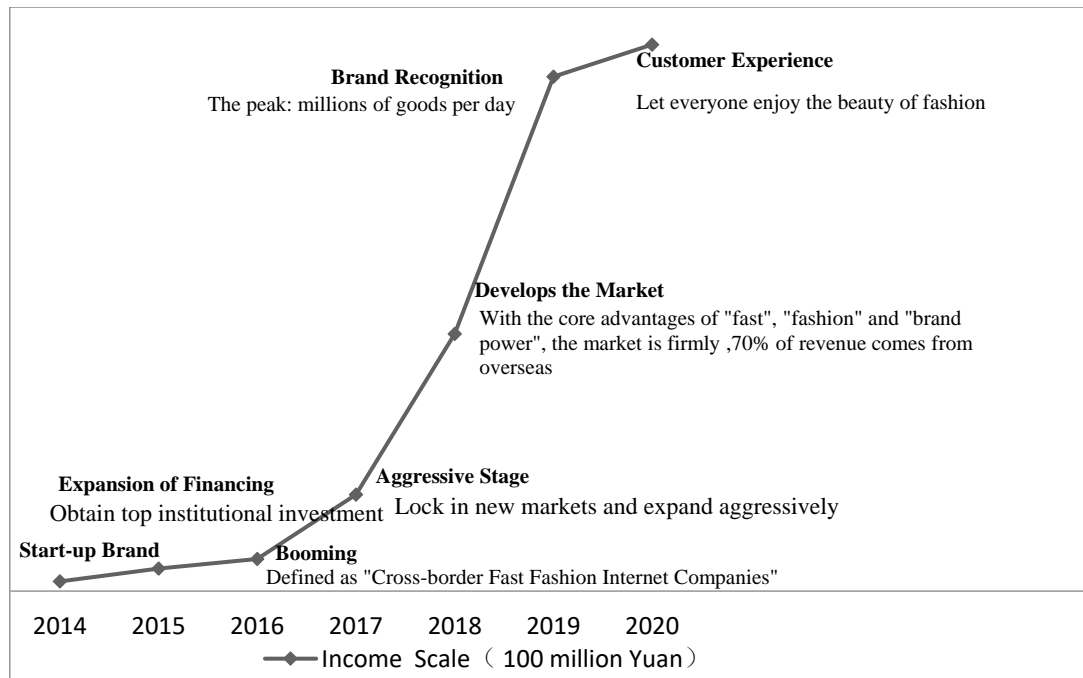


Figure 1: Income Scale

## 2. Analysis of Value-Creation Strategy

### 2.1 SHEIN's Value-Creation Strategies

SHEIN mainly uses two methods of value-creation: low cost and differentiation, which help the company gain a strong competitive advantage in the development of international business and achieve the goal of profitability and profit growth. By virtue of the advantages of Chinese manufacturing, the low cost strategy helps it to open the international market and win the favor of the middle and lower level consumers, and with the help of its own early SEO operation experience and differentiation strategy, it can quickly establish its foothold in the international fast fashion industry market.

### 2.2 Strategic Assumption

Before SHEIN develops its own value creation strategy, the implementation of future plans are considered from four aspects:

(1)Economic imperative: SHEIN, the cross-border e-commerce retail industry, operated by the company meets the homogeneity of product consumption, does not require product substitution treatment for special countries and such products (clothing, furniture) are generic products that can be operated without brand names or supportive services, so industry barriers are not very high. At the same time SHEIN uses its own vertical management system, surely has a certain pricing advantage.

(2)Political imperative: SHEIN is a vertical self-run, self-built Internet shopping platform, its industrial added value is mainly concentrated in the final product, even if the brand has strong rivals, ZARA and H&M, in the international market where it can still determine own niche market, with small European countries as the first step of internationalization pilot, and has made some achievements.

(3)Quality imperative: SHEIN can achieve quality assurance, category industry leader that always adheres to the mission of everyone to enjoy the beauty of fashion, adheres to the values of customer first, quick responses, learns innovation, integration and cooperation, and does its best to provide customers with comprehensive quality services. R&D can also always see "SHEIN and Forever21 feel very similar, but SHEIN is more fashionable, lower prices, more stable quality" such positive comments, meeting consumer expectations.

(4)Administrative coordination: SHEIN used to be a wedding dress brand of cross-border e-commerce, from the moment of birth there are international genes, combined with own actual situation, the company has launched in Spain, France, Russia, Germany and other countries from

women's clothing. Enhance competitiveness, face the world, step into the international area and everywhere.

To sum up, SHEIN adopts low cost and differentiation two strategies in the development of international market, one is based on global strategy, the other is based on market segmentation strategy.

### 3. Value-creation Strategic Implementation and Evaluation

#### 3.1 Value-creation Strategic Implementation

##### 3.1.1 Implementation of Low Cost

Low Cost Strategy is an overall strategy based on global integration, SHEIN operates the production, distribution of products, services of homogeneous type and quality in over 220 countries and regions worldwide. Because there is no offline store, they do not need shops. Fashion dress for less than \$20, some even cost less than \$5. For Zara, a little dress could cost more than \$30, but in SHEIN costs half price, even less than \$10. Cheap and fashionable goods allow more than 30% of customers to return to SHEIN to place orders. Low cost strategy let SHEIN even under the impact of the novel coronavirus 2020 sales have exceeded 40 billion RMB, which is expected to hit 100 billion RMB. By contrast, Zara announced that its February-April revenue was nearly halved and it closed 1200 stores. It has to be said that the SHEIN company's value-creation strategy plays a huge role in internationalization.

##### 3.1.2 Implementation of Differentiation Strategies

Differentiation Strategy based on the perspective of market segmentation, more consideration of consumer preferences, culture, policies and so on. To win the favor of market segments, SHEIN also has two separate brands SHEIN( business style) and ROMWE( cute style), nine small language sites, user hierarchy, different emails in different countries, and own a unique supply chain system in each country. SHEIN's design team has over 100 staff, that designers and their teams are mainly from China, the United States, Europe, the Middle East and so on. With a buyer's team in core markets, SHEIN collects local trends, cultural characteristics, providing designers with information for design and production of clothing, which created a "fast fashion 7 days faster than Zara ". Do provide better B2C services to customers. For example, in the Middle East, 2016 was the first year SHEIN entered the Middle East, where sales in the Middle East were 200 million RMB. Full localization, local operation and differentiated operation improve the consumption conversion rate of the platform. Sales figures for 2018 show that the United States accounts for 30%, Europe for 20%, the Middle East for 20%, and the rest for 30%.

#### 3.2 Value-creation Strategic Evaluation

##### 3.2.1 Positive Elements

(1) Accurate sinking market positioning. On the basis of the VIRO model, prior to the formation of the strategy Internal Resource Analysis, as follows:

Table 1: SHEIN Corporate VRIO Model Analysis

	Value	Rare	Innovation	Organization
Yes	√		√	
No		√		√

Table 1 shows that SHEIN company is not unique in the fast fashion industry, so it is important to achieve brand positioning. Low cost strategy combined with industry development and brand prospects, it chooses market sinking, locks consumer groups into 20-35 years old, average income, who hope to buy high-cost and a little small design, affordable products. The user portraits and low cost strategy coincide, and the consumption positioning matching degree of strategy is high.

(2) Dimension reduction strikes product operation strategy. The dazzling and endless offers, discounts, coupons, coupons, discounts, free gifts and so on, are the product strategies that SHEIN often use. This is very different from the simple operation pursued by ZARA. Since its creation, its products and operation team have been in the country for many years, plus the excellent practice of domestic e-commerce peers, it has strongly supported the construction of the front and rear product

system and transplanted its top product operation mode to SHEIN. Investment in the development, maintenance and promotion of mobile terminal, makes SHEIN quickly ahead of other competitors.

(3)Big data driven customer demand mining. SHEIN's value-creation strategy in the global market segment can not be separated from the accurate insight into customer needs. SHEIN company has a self-developed tracking system that can capture the products of all kinds of clothing retail websites, sum up the current popular colors, price changes, what patterns to use. Meanwhile, SHEIN is also a major Google customer, with the help of Google Trends Finder to calculate different countries hot word searching volume and rising trend, such as what color, fabric, style will fire. For example, it accurately predicted the trend of American fashion lace and Indian cotton in summer 2018. The accurate customer demand orientation provides the support at the R&D level for the realization of the Differentiation Strategy, especially for the advantage of entering the emerging market to obtain the first generation, and provides the indispensable R&D、Production、Marketing and Sale、Customer service four basic functions for the regional management.

(4)Efficient and advanced marketing strategy. Product differentiation marketing based on 6 P theory is carried out. Product: the early focused on women's clothing, the late development of men's clothing, children's clothing, accessories, home textiles, positioning young personality fashion customers; Price: Compared with H&M、ZARA and other fast elimination giants under the same quality style, SHEIN is more cost-effective, quality and cheap; Place: integration of global quality supply chain resources of cross-border e-commerce brands, production, research and development, sales as one of the supply scale; Promotion: with the help of third party platform TikTok、Facebook、Google and other platforms, its own global traffic, product exposure is extremely high. Meanwhile SHEIN began to try TV advertising, Youtube Kaiping and other traditional advertising methods. The focus of publicity has changed from discount sales to lifestyle promotion, and the purpose of marketing has changed from increasing sales to brand building.

(5)Flexible supply chain. Specialization and homogenization parallel, the main users of the site from North America: more than 50% from the United States, Canada 4.25%, European markets: Italy 10%, France 10%, Spain 5%. Both in the Middle East and India, Europe and the United States represent a mainstream market trend, tested here and pushed to the global market, owe to SHEIN strong supply chain system. For the regionalization management and the globalization management union strategy implementation, enhances the product efficiency and the logistics foundation.

### **3.2.2 Negative Elements**

(1)Brand products lack recognition. The openness of the Internet enables the shelves to accurately and timely grasp the popular trend of goods, design and produce a large number of fake products, which is actually the essence of the fast fashion industry. The value-creation strategy serving the low cost strategy can not guarantee the low price and hire more excellent designers team. It is inevitable that the style is the same, so that SHEIN is deeply branded as "low edition ZARA". Moreover, SHEIN also faces the questioning of working conditions and manufacturing processes in supply chain by Western Z generation (born after 96 years) consumer groups, because low-cost business strategies mean that the former can not be guaranteed. Brand independent good image of the establishment has a conflict with the low cost strategy.

(2)The product return rate is high. SHEIN faces with global market, where the size standards used by countries are inconsistent, coupled with regional ethnic differences, which magnifies the problem of inappropriate size, resulting in high return rates for non-quality problems. Differentiation strategy can lock in the difference of customer consumption in different groups, but low cost strategy make it impossible to invest more cost to achieve private service for consumer.

(3)Product pollution and waste are becoming more prominent. Firstly, the problem of fast elimination products is not whether the factory complies with the regulations and reasonable emissions, but that the fast elimination brand is often produced several times more than the traditional clothing industry because of the characteristics of fast fashion. Secondly, the inventory management cost of cross-border offshore warehouse, that clothes can not be sold quarterly after entering the warehouse, very large probability of this batch of goods will be disposed. Lastly, when they pass the season, the waste are enormous. This is not only related to the company's continuous profitability, but also related to whether it conforms to the principle of market access of other countries.

### **3.2.3 Comprehensive Review**

Overall, positive elements overweight negative elements. SHEIN's overseas development path is

clear and accurate to control nodes, especially SHEIN brand operation ability is worth learning by other cross-border e-commerce. How to use social media, put in and do localization promotion are the core competencies of SHEIN in brand operation. So far, SHEIN downloads have reached 229.4 million, compared with 123.5 million for H&M and 90.6 million for Zara. SHEIN has become the top shopping app in IOS app stores in a handful of western, according to App Annie data; in some middle east countries, including Saudi Arabia, it is also the top shopping app; in the United States, SHEIN ranks second only to Amazon.

#### **4. Related Recommendation**

##### **4.1 Recommendation**

(1) Brand transformation and upgrading, optimize public impression. Fast fashion brand itself can not escape the quality problem, if you want to reverse the current situation of high return rate and insufficient brand identification, one can learn from the practice of COACH. SHEIN needs to transform, which is far from enough to rely on low price strategy. We can hire international famous design director for one product design, break the original stereotype, and adopt cross-border joint cooperation. And introduce limited products to restore consumer's "low-grade ZARA" aging image. In order to further clarify the product positioning and enhance the image of the brand, we can also launch a higher price new product branch line to achieve brand upgrading.

(2) Accelerate IPO listing, for brand upgrading strategy to provide financial protection. If the fast fashion market is becoming more and more fierce and the cost of warehousing logistics is relatively high, it is a good strategy for SHEIN to go to the United States to seek financing. SHEIN and PDD are the same enterprises in the e-commerce industry positioning sinking market, PDD American listing to help it through the Internet winter, SHEIN can also use this method to develop homeopathy, opens up the popularity of enterprises in Southeast Asia and other markets. Make the realization of the "world-class fast fashion brand platform" dream further.

(3) Reasonable planning of inventory, reduce product backlog. Construction of MRP inventory control mechanism, to strengthen the balance of warehouse control, the formation of planning, production and storage coordination of the balance of warehouse work system. Introducing of deposit discount system, pre-production estimating consumer purchase, reducing excessive production behavior, saving costs, protecting the environment, improving profitability.

(4) Establish entity concept store, online and offline dual operation. The concept shop adopts the whole course consultant sales model, understands the customer's demand and the question, recommends the tailor-made matching product. This can attract new customers, retain old customers and achieve brand upgrading. The actual store form makes consumers feel product difference, the service from staff, and establish brand loyalty.

(5) Enter Southeast Asia, focus on the Chinese market. Since 2005, ZARA、H&M and other fast fashion giants have laid out China, but few brands can survive long. According to the bargaining power of suppliers and the bargaining power of buyers in Porter's Five-force Analysis Model, SHEIN entering the Chinese market can not only reduce the cost of supply chain circulation and reduce the bargaining power of suppliers, but also open the market with localization and price advantage.

##### **4.2 Influence on Financial Performance**

With the increase of popularity, consumer purchase behavior and repurchase intensity. In view of the fact that the cost of serving old customers is lower than that of new customers, the marketing cost of enterprises is relatively reduced. At the same time, the mode of online marketing is less fixed cost than that of offline shopping in traditional stores. After forming a fixed system of purchase process and return and exchange process, the operating cost is relatively reduced. Operating profits continue to increase.

IPO listing, although it will bring more market norms and disclosure costs, internal control costs, etc., but with the sustainability and stability of e-commerce operations, and excellent performance during the epidemic period, more investors will choose to become shareholders, whether long-term or short-term, can bring greater cash flow and increase stock prices. With the continuous inflow of funds in the secondary market, SHEIN can choose to invest funds into NPV>0 projects to earn income, but also use the funds for the optimization of the existing company model, through upgrading software,

MRP, etc. Bring long-term economic benefits through short-term investment. With the increase of net profit and the continuous investment in the company itself, it is reasonable to estimate that its ROCE will increase, and with the increase of return on investment, more investors are willing to become SHEIN shareholders, which forms a good cycle.

The reduction of product backlog can bring about the intuitive reduction of storage cost. According to the economic order model, the enterprise can change the order quantity according to the change of storage cost, and make the total cost of inventory lowest by determining the reasonable purchase batch and purchase time. Under other conditions, the reduction of operating costs can lead to an increase in operating profits. The concept of deposit discount system, due to the consumer psychology, short-term cash flow inflows. With fixed costs, the more scale it sells, the more marginal utility will.

## 5. Summary

After comprehensive investigation of the four needs of forming strategy, the Low Cost and Differentiation Strategy used by SHEIN company is more in line with its market positioning, which plays a positive role in the expansion and stability of its international market share, but there are also problems such as vague brand image and high return rate. Finding problem and solving is beneficial to the survival and development of one company. After performing the four basic functions, if the company can provide more supporting activities, it will be of great benefit to the later transformation of product and reconstruction of its brand image.

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