

# ***A Study on the Differentiation Strategy of Cross-Border E-Commerce***

## ***- Taking SHEIN as an Example***

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**Abstract:** The fast fashion brand SHEIN was founded in Nanjing, China, in 2008. The business covers categories such as clothing, footwear, jewellery, home, beauty, home textiles and electronic accessories, with a community set up on the site to provide services such as experience exchange, dating, and shopping. The aim of this research is to analyse the development status, overall overview and development strategy of SHEIN. The significance of studying SHEIN is that it can provide experience and lessons for other cross-border e-commerce companies, as well as promote the development of China's e-commerce industry. This paper analyses and compares the operational model and supply chain management by citing literature and comparative argumentation. SHEIN has achieved a significant market share and user base through its fast fashion operating model and price advantage. In conclusion, SHEIN's successes and problems faced in the cross-border e-commerce sector are instructive for other e-commerce companies.

**Keywords:** SHEIN, differentiation strategy, cross-border e-commerce

## **1. Introduction**

With the increasing development of Internet technology and the growing scale of the e-commerce market, e-commerce platforms have become one of the most dominant business forms in modern society. As a representative of the apparel industry, the e-commerce platform is also facing a rapid development opportunity. Fast fashion brands that once served only offline channels are gradually developing and laying down their own online channels to capture the omnichannel sales market in recent years. In this area, SHEIN, a new Chinese fashion brand, and cross-border e-commerce platform focusing on young consumers, has also grown rapidly in a short period of time and has become a leader in the overseas apparel market.

This paper will focus on the cross-border e-commerce platform SHEIN, with the aim of gaining an in-depth understanding of its history, business model, strengths and challenges. Through a review of the relevant literature, case studies and comparative analysis, we will explore the reasons

for SHEIN's successful entry into the fast fashion industry and analyse the challenges it may encounter in the future.

With the continued innovation of internet technology, e-commerce platforms have become an important part of the global consumer market. The cross-border e-commerce market, as an important part of the e-commerce platform, is rapidly emerging and becoming a new growth point for economic development. The successful practice of cross-border e-commerce platforms in the fast fashion sector, represented by SHEIN, has attracted much academic attention.

The aim of this paper is to explore the reasons for SHEIN's successful entry into the fast fashion sector and to analyse the challenges it faces in its future development. Specifically, the paper will discuss SHEIN's strengths in terms of product positioning, channel layout and marketing. At the same time, the challenges it faces are from domestic and international competitors, e-commerce regulations and other aspects. Through this study, it is hoped that it can provide some reference and reference for practitioners and scholars related to the fast fashion industry, as well as help in the development of the cross-border e-commerce industry.

Under the premise of adopting the review research method, this paper will mainly use comparative analysis and case study for the execution of the subsequent content. This paper will compare SHEIN and similar international e-commerce brands, conduct a comparative analysis, and compare their market positioning, marketing methods, product quality, and prices so as to find the similarities and differences between them and further analyse their success factors and development trends in depth. As well as analysing the reasons for its success and its strengths and features in terms of brand strategy, product positioning, and marketing methods, and analysing the challenges it faces and the scope for development.

## 2. Developments in the Apparel FMCG Industry

While pursuing high-end brand design styles and concepts, fast fashion brands have taken advantage of their global supply chains to achieve low product prices. With the key features of being "fast on-trend, fashionable and inexpensive", they have taken the global market by storm.

From the perspective of market space, the fast fashion apparel market is large and highly profitable, with ZARA's parent company Inditex and H&M maintaining gross margins of over 50% year-round, compared to an average gross margin of around 20% for mass FMCG products[1], implying the huge potential of the fast fashion apparel market. Domestic e-commerce platforms also have a certain degree of layout for the fast fashion market, such as Taobao online and offline fast fashion clothing shop "ifashion", the second half of 2022, byte jumping to build a "fly cloud weaving" fast fashion brand team, Jingdong, Poundland also in the fast fashion market, and the first half of 2022 byte jumping to build a team of fast fashion brand, Jingdong, and Jindo have also launched fast fashion sections on domestic and international platforms to capture the fast fashion apparel market.

Compared to traditional fast fashion brands, which are mainly sold offline, the fast fashion apparel industry, which relies on e-commerce platforms, has emerged as a differentiated market for fast fashion brands by virtue of its business model innovation, big data analysis and use of social media. The rise of e-commerce platforms has also dealt a heavy blow to traditional offline fast fashion brands. Overseas traditional fast fashion brands led by ZARA, H&M and GAP have continued to close shops and see their revenue decline. In the case of GAP, for example, Baozun E-Commerce is the business agent for GAP in China but suffers losses due to GAP's poor performance, with Baozun E-Commerce's net losses expanding nearly threefold in 2022[1]. SHEIN, the earliest entrant into the overseas apparel FMCG industry, adopts a similar marketing strategy to ZARA in terms of brand positioning, fashion trend forecasting, new models on production and affordable sales, but its digitally empowered nature with its e-commerce platform has broken the

established rules of the fast-fashion apparel industry, and the changes in supply and demand brought about by e-commerce have caused traditional fast-fashion brands to lose the advantage of rapid iteration.

The fast fashion apparel industry now extends from the middle brands to both ends of the spectrum, divided into the trend of high-end upgrades for traditional fast fashion brands such as ZARA and the layout of cross-border fast fashion e-merchants such as SHEIN that trade low prices for market share. Led by SHEIN, consumer apparel cross-border e-commerce companies have reinvented the FMCG apparel industry and driven the apparel market with differentiated strategies such as accurate trend forecasting capabilities and a robust global supply chain system.

### 3. Overview of SHEIN

SHEIN was founded in Nanjing, China in 2008, and in 2009 SHEIN established a cross-border e-commerce business for wedding dresses, sourcing wedding dresses from domestic wholesale markets and selling them to Europe and the US through third-party e-commerce platforms. In February and May 2013, SHEIN launched its Russian and German sites, respectively, and in December of the same year, it received US\$5 million in Series A funding from JAFCO (see Table 1), and in November 2014, SHEIN launched its Italian site. By now, SHEIN had initially built its supply chain ecosystem, laid out its mobile internet sales channel, launched its mobile application APP, and its total annual order volume exceeded 5 million[2]. In 2015, SHEIN adopted a KOL (Key Opinion Leader) strategy, placing advertisements on widely popular social media platforms such as Instagram and Facebook, and in 2016, SHEIN officially positioned itself as a "women's cross-border fast fashion internet company", with sales exceeding US\$600 million. 2018 saw SHEIN expand into new markets in the Middle East, India, and Southeast Asian countries, with sales exceeding US\$1.8 billion. Top 50 Global Brands in China" list at No. 24. SHEIN has received Series C to Series E funding from Sequoia China and Shunwei Capital between 2018 and 2020 (see Table 1) to expand into jewellery, home, beauty, home textiles, and electronic accessories. 2020 saw most offline brick-and-mortar businesses hit by the epidemic, driving demand for online fashion FMCG brands such as SHEIN Growth, with SHEIN sales of nearly US\$10 billion in 2020, up 110% year-on-year[3] and SHEIN making a list for the third time at #13 in the BrandZ Top 50 Global Brands in China 2020. in May 2021, data from app tracking companies APP Annie and Sensor Tower showed SHEIN on the US In April 2022, SHEIN closed a US\$1 billion Series F round of funding from Pan Atlantic Capital, Sequoia China, and Tiger Tiger Fund (see Table 1), valuing the company at US\$100 billion. SHEIN is expected to reach US\$58.5 billion in revenue (Gross Merchandise Volume) by 2025, surpassing the combined annual sales of ZARA and H&M. The company is expected to reach \$58.5 billion in GMV (Gross Merchandise Volume) by 2025, more than ZARA and H&M combined.

Table 1: SHEIN financing data [4].

Number	Date	Financing Round	Company Valuation	Financing Amount	Institutional Investor
1	2022-04-06	Series F funding	\$100 Billion	\$1 Billion	General Atlantic, Tiger Global Management, Sequoia China
2	2020-08-04	Series E funding	\$15 Billion	Hundreds of millions of dollars	Undisclosed

Table 1: (continued).

3	2019-12-01	Series D funding	Undisclosed	\$500 Million	Tiger Global Management, Sequoia China
4	2018-07-03	Series C funding	Undisclosed	Hundreds of millions of dollars	SHUNWEI Capital, Sequoia China
5	2016-07-12	Series B funding	¥ 1.5 Billion	¥ 300 Million	IDG Capital, Greenwood Investment
6	2013-12-01	Series A funding	Undisclosed	\$5 Million	JAFCO Asia

#### 4. SWOT Analysis of SHEIN Brand Development Strategy

##### 4.1. Internal Strengths - Differentiation Strategy

**A Unique C2M Business Model.** C2M (Customer to Manufacturer) business model refers to the user's demand; the manufacturer directly manufactures products removing the brand, agents, and shopping malls and other intermediate links, to maximize the benefit to consumers, to achieve the user's "customized production" [5]. This is a way of maximising the benefits to the consumer and achieving "customised production" [5]. Compared to the current market mainstream Business-to-Business (B2B), Business-to-Customer (B2C), Customer-to-Customer (C2C) and Online-to-Offline (O2O) models, the C2M model does away with the cash-and-carry model and accelerates the process of purchasing from factories. The C2M model allows suppliers to purchase from factories, speeding up their liquidity and stabilising the price range, giving them a price advantage in the marketplace. [6]. SHEIN has implemented the C2M business model into its brand marketing strategy and has built an intelligent warehouse management system, an agile and efficient flexible supply chain, and a digital management system based on this business model to build the SHEIN brand ecosystem (see Figure 1). Unlike traditional fast-fashion clothing brands such as ZARA and Uniqlo, SHEIN's C2M business model, which is unique to e-commerce platforms, has enabled it to achieve the advantages of de-stocking, fast updates, low cost, and efficient logistics, satisfying suppliers while improving consumers' shopping experience and rapidly capturing overseas markets.

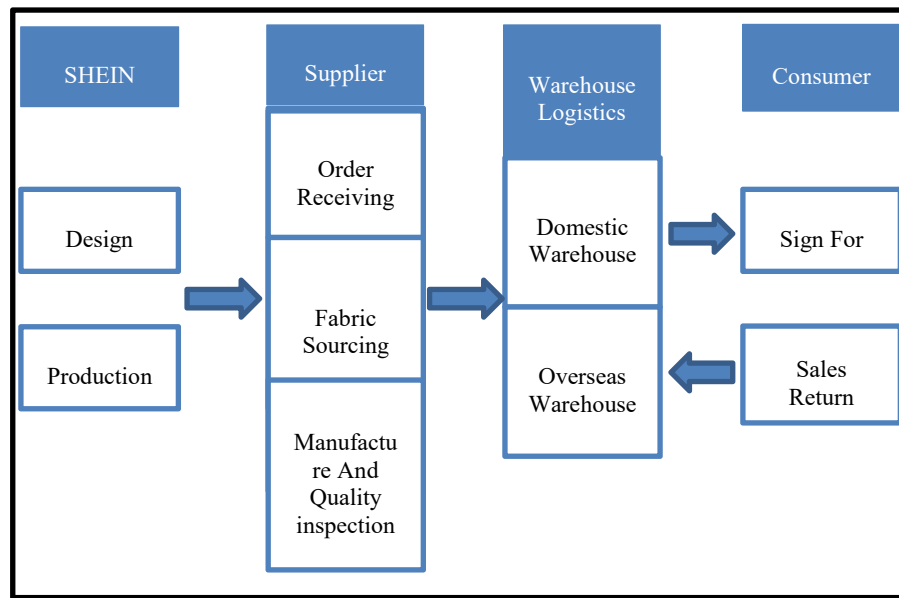


Figure 1: C2M business model of SHEIN [4].

**Agile and Flexible Supply Chains.** Another of SHEIN's core competencies that differentiate it from homogenous markets is its unique flexible supply chain. Agile and flexible supply chains are characterised by flexible process alignment, dynamic resource pooling and virtual capability synergies [7]. The existence of SHEIN's flexible supply chain effectively builds a strong positive feedback loop for SHEIN (see Figure 2). As illustrated in Figure 2, SHEIN's C2M business model and flexible supply chain model allows for a direct interface between users and suppliers, allowing for maximum satisfaction of user needs. SHEIN also integrates upstream and downstream resources in the supply chain, using big data to open intelligent warehouse management and effective information exchange at all stages, thus reducing warehouse costs, improving inventory turnover and moving sales, and gradually building a global logistics supply network. SHEIN's "pay first, produce later" model is also one of the reasons why users and manufacturers are attracted to the platform. For corporate businesses, this model allows for customised production of individual garments and a better user experience. It also will enable suppliers to have smaller inventories and lower costs, which reduces the cost of goods to a certain extent, making it attractive to users. On the supplier side, there is a degree of zero inventory of products, so all goods are in a state of turnover. This compares to six months for Uniqlo, which focuses on long-selling basics, and as fast as 14 days for ZARA, which focuses on popular models [8] SHEIN's flexible supply chain gives it the capacity for rapid product iteration and innovation and ensures cost advantages and logistics and distribution efficiency, building a good supply chain ecosystem.

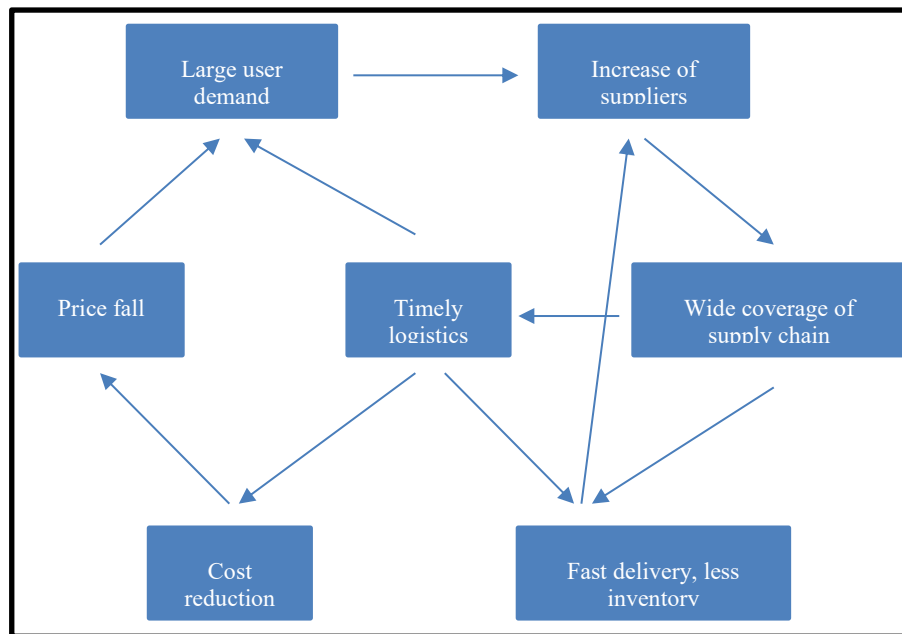


Figure 2: SHEIN positive feedback loop.

**A Solid Digital Marketing Strategy.** SHEIN cooperated with major social media platforms at the beginning of the market, placing advertisements on Instagram, Facebook and other overseas mainstream social media, and contacting netizens on major platforms, using the "social platform + netizen + recommendation algorithm" strategy to interact well with users, while using the Key At the same time, SHEIN adopted the Key Opinion Leader (KOL) and Key Opinion Consumer (KOC) strategy to attract traffic to its official website, and at a time when the marginal dividends of celebrities and head KOLs were declining, SHEIN shifted its focus to small KOCs, offering free fitting services to weblebrities and issuing coupons for users to stand up for SHEIN on its social media platforms to attract new users to the platform [9] The brand's reach was expanded. In addition, SHEIN uses the Google Trend Finder system [3]., collects and analyses user data, updates products according to market feedback, and develops products much faster than other apparel industries. SHEIN's operation team combines online and offline, digs deeply into user preferences as well as fashion trends, continuously optimises its services, improves user experience, and actively builds a community platform to create a good brand image.

#### 4.2. Internal Disadvantages - Problems at this Stage

**Product Plagiarism, and other Copyright Issues.** SHEIN needs a constant flow of ideas in order to ensure its ability to get up to date quickly, and these ideas may originate from unauthorized original designs. A number of original designers are currently accusing SHEIN of plagiarism in overseas media. SHEIN has been named as a defendant in at least 50 federal lawsuits over plagiarism in the past four years. In July 2022, SHEIN was sued for \$100 million for plagiarism [4]. In the European and American apparel markets, the protection of individual intellectual property rights is one of the critical considerations for companies. While issues relating to plagiarism are common to most fast fashion brands, a good corporate reputation is also a top priority in marketing a brand in the context of a profitable business.

**Product Quality and Environmental Issues.** SHEIN has been pursuing a cost leadership strategy for a long time and has made the rapid introduction of new features the core competitiveness of its platform. As a result, suppliers often produce products with substandard



quality control in order to pursue the speed of shipment, and SHEIN's quality control requirements are not strict, resulting in criticism of the quality of its garment products, the average life span of its production garments is generally short, and it generates a large amount of garment waste rate that is difficult to be degraded twice High. Under the pressure of global energy consumption, the water and land resources required for the production of textiles have become a common global concern for environmental protection [10].

**Supply Chain end Players Exiting One after Another.** In the first and middle stages of the company's development, SHEIN became a unicorn in large part because of the strong supply chain players behind it. However, SHEIN finished with a profit of USD 200 million, determined by squeezing supply chain margins. A number of supply manufacturers in Guangzhou, China, have said that they will no longer work with SHEIN or accept orders from it in the future because of SHEIN's strict requirements on the speed of supplier shipments. Also, due to the small volume of individual custom orders, supplier margins are shallow. As SHEIN gradually moves into the mid-range route, product quality audits have become stricter, further squeezing the margins of vendors. According to a research report on SHEIN by Guosheng Securities in November 2021, after combining all costs, SHEIN's profit margin is 5%-10% (between RMB3.4-6.8 for a product priced at RMB68), and its product prices are lower than H&M and ZARA while its product margins are lower than both [11]. SHEIN's reputation is rated low among suppliers.

#### 4.3. External Opportunities

**High-Speed Development of E-Commerce Platforms.** The rapid development of e-commerce has broken the traditional marketing strategy of fast fashion brands. SHEIN pinpoints the market and uses the characteristics of e-commerce platforms to directly remove multiple distribution links in the midstream and quickly respond to consumer preferences. Relying on the advantages of big data to grasp market trends, compared to the traditional fast fashion brands' characteristics of mainly offline sales, the e-commerce platform has a large amount of consumer data and is able to make accurate predictions on user behaviour and even predict future fashion trends.

**The Epidemic Stimulates Online Consumption.** Since the 2019 New Crown epidemic, the offline brick-and-mortar economy has been hit hard, with offline brick-and-mortar-based fast fashion brands continuing to close shops. However, SHEIN seized the opportunity and placed a large number of advertisements on platforms such as TikTok, Instagram and Facebook, actively interacted with users, did not slow down on new product launches and provided efficient and convenient logistics services, and during the epidemic, the products also ensured users' consumer rights and had a good shopping experience, which quickly attracted a large number of users to the station and further swept the overseas market.

#### 4.4. External Challenges

**Domestic E-Commerce Gradually Entering Overseas Markets.** Temu, TikTok, and other cross-border e-commerce companies are progressively entering the offshore market to capture SHEIN's market share with a low-cost strategy. Temu, for example (see Table 2), has overlapping strategies with SHEIN in terms of main categories, target segments, target regions, and ways of attracting traffic and is currently lower than SHEIN in terms of cost pricing. Temu not only poses a threat to SHEIN with its low-price strategy but also puts SHEIN in a crisis when it comes to competing for talent. Unlike SHEIN, which is a mature platform, Temu is an emerging platform with a lot of new business, which attracts a large number of employees, and the salary level is high enough to make employees who were previously on SHEIN's platform willing to jump ship and join Temu. Temu has a solid foundation in the Chinese market with Pundland and will not lag behind SHEIN in

terms of advertising and traffic investment. Temu may be able to capture the enormous overseas market in a short time, which will put much pressure on SHEIN.

Table 2: The strategic comparison between TEMU and SHEIN [4].

	TEMU	SHEIN
Main category	All categories	Fast fashion
Target customer	Middle and low-end consumers	From young women to middle and low-end consumers
Objective area	From North America to the globe	America, Europe, the Middle East to the globe
Core feature	Pinduoduo supply chain, algorithm, Talent support	Small order express mode
Commercial characteristics	Self-operating model	Independent station mode, Experimental platform model
Profit model	Proprietary spread income	Proprietary spread income
Publicity mode	Social media + content, Scenario-based promotion	Social media, Community operation
Logistics pattern	Domestic direct mail	Domestic direct mail, set up overseas return warehouse
Page display	Algorithm recommendation dominant, Category search	Category-based search, Algorithm recommendation

**Trend of High-End Traditional Fast Fashion Brands.** Traditional fast fashion brands are much higher in cost than domestic cross-border e-commerce brands such as SHEIN and Temu, so they made changes in the direction of product strategy to upgrade high-end. Take ZARA as an example; in May 2022, ZARA reached cooperation with Rhuigi Villaseñor, the new creative director of luxury brand Bally, to launch a new brand Redesigning Human Uniform. According to Global Times, in January 2023, ZARA also launched a joint collaboration with the Chinese designer brand CALVINLUO collection. In terms of product raw materials, the quality of fabrics used by ZARA has improved, with a 44% increase in the use of cashmere and a 16% increase in the use of leather in 2021. With its product co-branding and raw material upgrade strategy, ZARA's parent company Inditex grew sales by 17.5% and net profit by 27% in FY2022[1], and ZARA was the only company to achieve profit growth among traditional fast fashion brands last year. The vital upgrade of traditional fast fashion brands will inevitably affect the apparel FMCG industry again, and it will affect the future strategic direction of SHEIN.

## 5. Discussion and Suggestions

### 5.1. Strengthen Quality Control and Improve Brand Reputation

SHEIN should reduce the defective rate and product rework rate to less than 10% through quality inspection, quality improvement as well as process level. In terms of design, SHEIN should try to avoid similar product designs, hire brand designers, and conduct product design reviews before releasing products to prevent plagiarism and other problems to the greatest extent possible. In terms of environmental protection, we should reduce the production of apparel that is difficult to be degraded and find a sustainable development path. SHEIN can follow the ecological protection strategies of brands such as ZARA and UNIQLO, cooperate with non-profit environmental



protection organizations to contribute to the global environmental protection cause, and strengthen brand publicity on environmental protection to improve user satisfaction and brand reputation.

## **5.2. Shifting Production Lines and Finding Diversified Suppliers**

SHEIN should seek and establish overseas production bases, such as in Southeast Asia, Africa, and other regions with lower labour costs, while maintaining domestic supplier relationships to try to continue to maintain lower production costs. In addition, measures to increase production line automation to reduce production costs are also potentially viable ways for the brand.

## **5.3. Adhere to and Deepen the Current Differentiation Strategy**

THE C2M business model, flexible supply chain, and digital marketing are the basis for SHEIN to gain a foothold in the overseas market. Although SHEIN is under siege from many sides of cross-border e-commerce, it should not confuse itself and should continue to maintain its own advantages, do an excellent job in social media and good interaction between users, optimize its own services on the basis of existing users, improve product quality and increase user stickiness to cope with existing difficulties.

## **6. Conclusion**

SHEIN is thriving as a fast-fashion cross-border e-commerce brand. SHEIN has succeeded in quickly responding to consumer preferences by positioning itself in the market, taking advantage of the characteristics of e-commerce platforms and big data, and seizing external opportunities such as the rapid development of e-commerce platforms and the epidemic to stimulate online consumption, further sweeping overseas markets. Cross-border e-commerce, as an emerging business model, has been widely used around the world. In the future, cross-border e-commerce will face more opportunities and challenges. In order to achieve greater success in the future cross-border e-commerce market, companies need to master new technologies and trends, actively expand into new markets and business areas, optimize their own product and service quality, improve user experience and loyalty, as well as continuously innovate or deepen their business models.

However, SHEIN is also facing external challenges, such as the current situation of domestic, cross-border e-commerce influx into overseas markets and the trend of high-end traditional fast fashion brands. Facing this situation is both a challenge and an opportunity for SHEIN's development. SHEIN should grow and expand under its existing capacity, discover its own shortcomings in marketing strategy, learn from its experience, vigorously promote the brand's benign development overseas, and improve its core competitiveness as its primary goal.

Although SHEIN's competitive differentiation strategy is explored in depth in this paper, its research area is somewhat limited. Therefore, further expansion of the existing research results is needed in the future. The first consideration is that limiting the scope of the research population may negatively affect the generalizability and credibility of the research results. Secondly, the limitations of data sources and research methods may impose constraints on the accuracy and reliability of research results. In addition, most of the existing research results are analyzed only for a specific brand or service, which lacks comprehensiveness and systematization. At present, the relevant literature on the differentiated competitive strategies of cross-border e-commerce enterprises mainly focuses on the macro level, while the differentiated competitive strategy at the micro level of the cross-border e-commerce industry have not been fully explored. Therefore, this study suggests that future research should expand the diversity of research objects, introduce more data sources, and adopt diversified research methods in order to explore the differentiated competitive strategies of cross-border e-merchants in a more comprehensive and in-depth manner.

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