

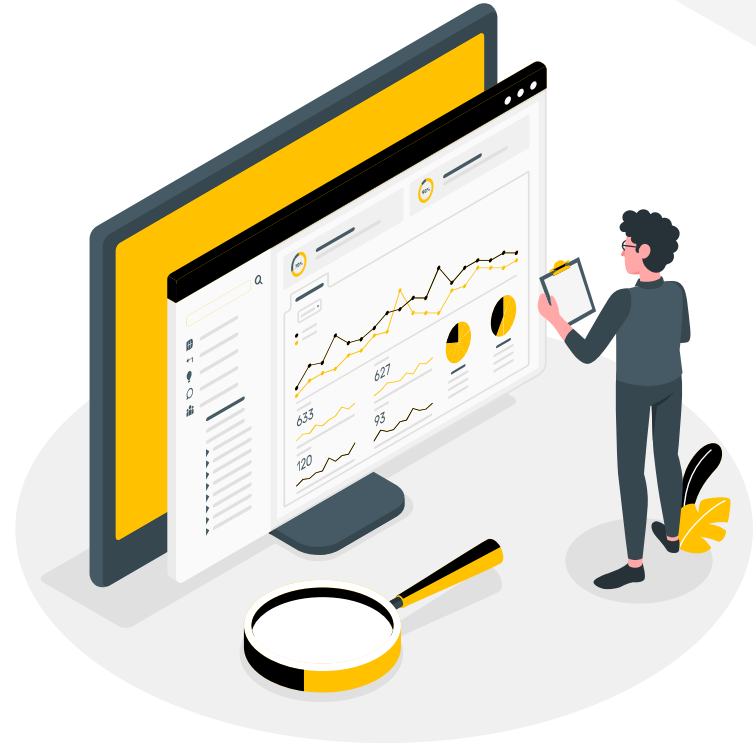
SHEIN VS ZARA

Digital Transformation in the Fast-Fashion Industry

MNEC, Group 2.2

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Case Introduction

- SHEIN (firstly named SHEINSIDE) originated in 2008 as a Chinese company that sold wedding dresses through third-party platforms and focused on exporting to the US;
- It had a lot of success since its products were much more affordable than the ones available locally;
- The founder decided to expand the business by creating an independent website to sell the products without needing a mediator;
- SHEIN now sells Instagram-style clothing, competing with physical companies such as Zara and H&M in the fast-fashion branch;
- SHEIN was the most downloaded shopping app in the US in May 2021;
- Its clothing is known for its low prices, even when compared to the most affordable stores, making it a strong competitor in the apparel industry.



Problem Identification

- Despite SHEIN's exponential growth in recent years, the brand and its business model face several challenges and criticism;
- Customers are worried about product quality;
- Some delivers had the wrong size or wrong fit;
- The brand is criticized for its inappropriate and insensitive products (e.g. Buddhist swastika pendant, Muslim prayer);
- There are a lot of questions about how SHEIN makes money, due to its low prices;
- Concerns regarding the transparency of company disclosures and the environmental impact of the brand's fast fashion business model have emerged;
- Being a Chinese brand, it faces political risks in the international market;
- It is uncertain if SHEIN will continue to grow with the end of the pandemic;
- **What should SHEIN do to address these problems and challenges in order to keep growing?**

1. How attractive is the apparel industry?

Threat of New Entry (medium-low)

- Easy to launch small online businesses, but difficult to compete with large brands;
- Large investments needed;
- Difficulty to establish a reputation.

Power of Suppliers (medium-low)

- Several suppliers;
- Major suppliers have some power of negotiation;
- Higher if limited suppliers are available or if a supplier monopolizes the existence of materials;

Competitive Rivalry (high)

- Well-established industry, growing in the online domain;
- Existence of several brands;
- High competitiveness in the industry.

Threat of Substitution (high)

- Products with lower prices, more convenient or higher quality;
- Low switch-cost and lack of loyalty towards the brands.

Power of Buyers (high)

- Easy access to information to compare different products;
- Higher demand for online shopping, forcing brands to digitize;
- Low switch cost and lack of loyalty towards the brands;
- Buyers can influence the prices and quality of the products or decide to purchase from other brands;
- Brands become susceptible to fashion trends.

1. How attractive is the apparel industry?

- The apparel industry is super competitive;
- There are well-established brands that are capable of defining and controlling trends;
- Only major suppliers have some bargaining power;
- Difficulty entering the industry, due to the high costs when launching a brand. Despite that, an online business could reduce those costs;
- Any product can be a success, creating a new trend. So its relatively easy to introduce substitute products;
- **In an overall perspective, we believe that the apparel industry is not an attractive industry.**

2. What is Zara's Business Model and how did it evolve with digitalization?

Value Proposition	Customer Relationships	Customer Segments	Channels
<ul style="list-style-type: none"> Affordable fast-fashion (fast access to fashion trends at affordable prices); Pioneer in trends creation. 	<ul style="list-style-type: none"> Customer acquisition through their reputation as an agile brand in the apparel industry; Customer retainment and growth by analysing trends through sales (responsiveness), and by seasonally refreshing its stores with products; Allow customers to make returns; Provide information on trends. 	<ul style="list-style-type: none"> Mass market fashionistas; Low to medium buying power customers. 	<ul style="list-style-type: none"> Physical stores; Website; Mobile Application; Social Media.
	Revenue Streams		
	<ul style="list-style-type: none"> Traditionally, mostly physical product sales; More recently, online sales. 		

2. What is Zara's Business Model and how did it evolve with digitalization?

Key Partners	Key Activities	Key Resources
<ul style="list-style-type: none"> Inditex; Suppliers; Manufactures/Designers; Trend scouters; Delivery companies; Shopping centers. 	<ul style="list-style-type: none"> Manufacturing; Logistics; Customer Service; Design; Data analysis to generate new designs; E-commerce; Shipping. 	<ul style="list-style-type: none"> Flexible and optimized supply chain near its headquarters; Point-of-sale systems / computerized inventory management system; Physical Stores; Data gathering from local managers; Data gathering from digital platforms; E-commerce platforms (mobile App, website).
Cost Structure		
<ul style="list-style-type: none"> Production; Distribution; Workers; Physical Stores; IT - servers, maintenance of website, mobile App and systems. 		

2. What is Zara's Business Model and how did it evolve with digitalization?

Digitalization provided the possibility to leverage data and computation to further understand the customers' shopping habits and preferences, leading to a more flexible and responsive fast-fashion model.

- Initially, Zara focused mainly on its physical presence - “brick-and-mortar” stores. When Zara pioneered the fast-fashion business model, **data analytics and technology** (point-of-sales systems and analysis of shopping habits) had an important role in the reduction of the production cycle, by providing a greater understanding of the trends and consumers. This improved customer satisfaction, and reduced prices.
- Later on, Zara focused on its **offline and online integration** by entering the **e-commerce** industry and becoming a “click-and-mortar” business. This made it easier to **gather and analyse sales, manage the inventory and improved its geographic reach**.
- **Omnichannel Model**: always pursues greater knowledge about the customer and provides access to products across physical and digital channels.
- **Data Network effects**: more data from the consumers enables a better prediction of trends, also improving customer experience and, therefore, leading consumers to come back, and facilitating customer acquisition.

3. What is SHEIN's Business Model and what is the role of digitalization in SHEIN's business model?

Value Proposition	Customer Relationships	Customer Segments	Channels
<ul style="list-style-type: none"> ULTRA fast-fashion (fast access to the latest trends at affordable prices); Fashion for everyone. 	<ul style="list-style-type: none"> Customer acquisition through special discounts and constantly lower prices; Daily releases and “treasure hunting” experience that leads consumers to revisit (Customer Retainment); Customer growth by providing different kind of products focused on different kinds of customers; Consumer-centric brand; Affiliate programs. 	<ul style="list-style-type: none"> Gen Z; Mostly females 15 to 35; Mass market fashionistas. 	<ul style="list-style-type: none"> Website; Mobile App; Advertising/social media influencers (KOL).
Revenue Streams			
<ul style="list-style-type: none"> Online Sales (Website and App): <i>In June 2021, SHEIN's daily total shipment was about 1M packages, with each order totaling USD70, on average.</i> 			

3. What is SHEIN's Business Model and what is the role of digitalization in SHEIN's business model?

Key Partners	Key Activities	Key Resources
<ul style="list-style-type: none">• Over 2000 suppliers;• Small to midsize workshops;• Chinese garment factories and manufacturers;• Collaboration with musicians on concerts or events, influencers, TV stars,...	<ul style="list-style-type: none">• Logistics;• Customer Service;• Design;• Data analysis to generate new designs;• E-commerce;• Shipping.	<ul style="list-style-type: none">• Very strong and flexible supply chain ecosystem, allowing to create new products and make them available in only one week;• Website and Mobile App;• Direct access to customers, instant data collection.
Cost Structure		
<ul style="list-style-type: none">• Payments to suppliers;• IT - servers, maintenance of website, mobile App and data analysis algorithms;• Shipping.		

3. What is SHEIN's Business Model and what is the role of digitalization in SHEIN's business model?

Digitalization assumes a key role in SHEIN's business model. The company is based on a website and mobile app as ways to interact the customers and sell their products, eliminating the cost of physical stores. Moreover, digitalization also allows the one-week production cycle, by providing a greater understanding of the trends and consumers.

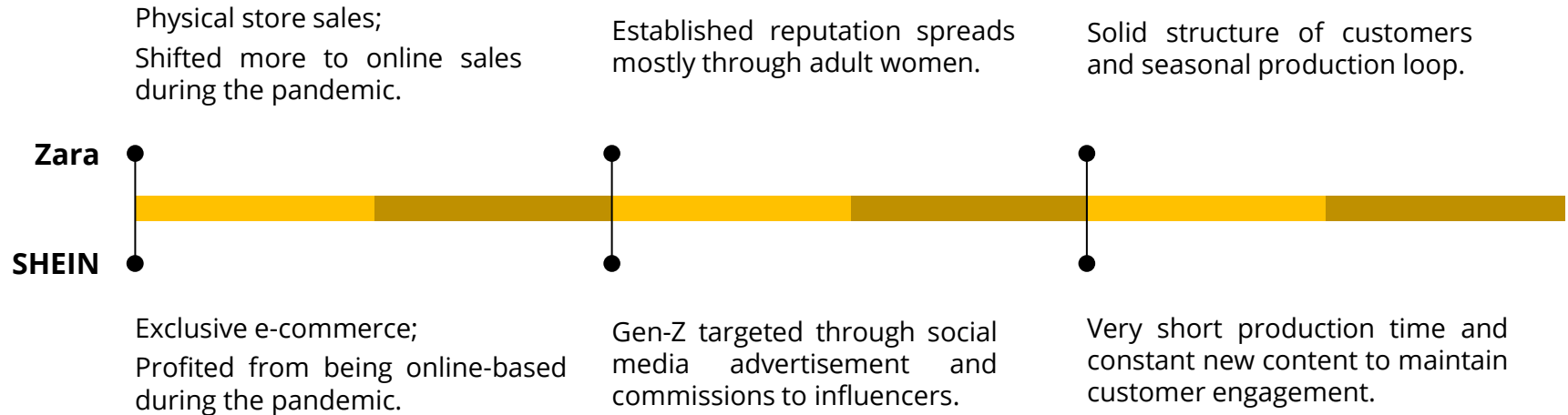
- By selling through its own website, rather than through third parties, SHEIN is able to leverage customer data and avoid the costs of a middleman.
- Its digital presence enabled it to increase its sales even during the pandemic.
- As a digital player, data collection and analysis is easier and more direct, enabling the brand to better understand customers' preferences by combining sales, social media, geographic location, among others. This information could then be used to cluster clients and craft new designs (**Data Network effects**).
- **Omnichannel Model:** always pursues greater knowledge about the customer and provides access to products only on digital channels, mainly through its website and social media (different from the typical omnichannel model).

3. What is SHEIN's Business Model and what is the role of digitalization in SHEIN's business model?

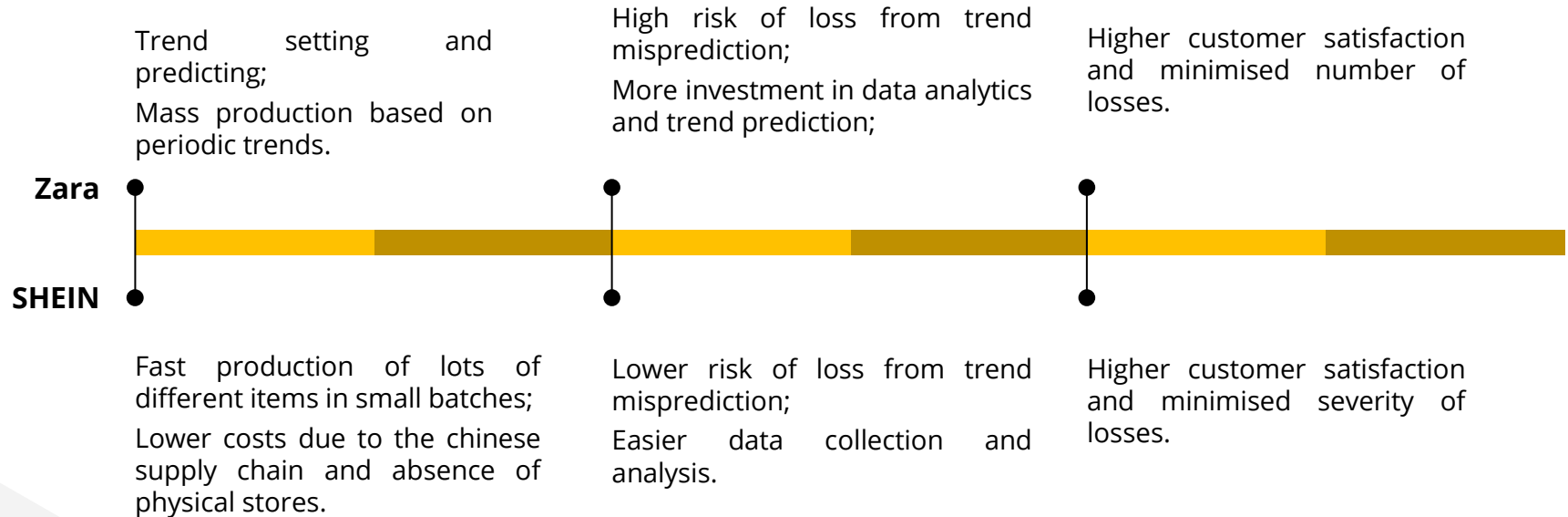
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- **Media** is also important for SHEIN since it is used to advertise and share its new products. Furthermore, influencers use social media to spread the brand's products and acquire customers. SHEIN's digitalization through social media has generated a digital community of fashion enthusiasts and helped SHEIN build a stronger image - not just an online brand that sells cheap clothes but a consumer-centric brand.
- **Network effects:** more consumers enable more data to be collected, which will improve the prediction of trends and customer experience, adding value to the brand. By using social media as a way to spread the brand's image, SHEIN also leverages the direct network effects of social media.
- Advantages over brands with physical presence: with no costs for operating physical stores, lower prices due to China's supply chain and cost advantages, and more variety due to easier access to data, SHEIN's digital presence can compete with top global apparel brands, even though they are investing in their digital transformation.

4. How would you compare the two business models, and how are the two groups successful in the market?



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- Zara found its success by being one of the pioneer companies in the world of fast-fashion.
- It was also able to balance a high amount of production with its consequent high risk of loss, by focusing most of its expenses on data analytics and trend prediction.
- On the other hand, SHEIN was really successful in the world of e-commerce platforms due to the capability of the Chinese supply chain to provide small batches of each item in an extremely short time.
- SHEIN tackled the same problem from a different perspective, using the available resources and reducing the consequences of misprediction.

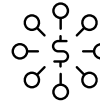
5. What should SHEIN do in its future strategy?

Recommendations



High-end products to capture higher-profit businesses

- Premium collection: MOTF;
- Gen-Z is growing up and so is their purchasing power;
- Allow wealthy people to also benefit from this fast-fashion model - broadening its audience outside of Gen Z;
- Create higher-profit margins for SHEIN.



Expand the fast-fashion business model to other businesses

- Highly increase the customer segments by selling other types of products, e.g. home decor, furniture, cosmetics;
- More people would have access to affordable and trending products.

5. What should SHEIN do in its future strategy?

Recommendations



Turn competitors into complementors

- Creating new Key Partners like ThredUp, Vinted or Depop - companies that allow people to sell/buy second-hand clothes online;
- By promoting each other businesses, people would free their closets and make space for new low-cost and high-fashion products.

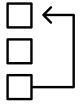


More transparency covering ethical and sustainability issues

- Gen-Z (SHEIN's bigger customer segment) is one of the generations more concerned/aware of sustainability and ethical issues;
- SHEIN could cover topics more often such as:
 - Underpaid labor;
 - Detailed information about their carbon footprint;
 - Use of renewable energy in their supply chain;
 - Copyright of designs.
- This can also be achieved by making partnerships with more sustainable companies.

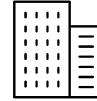
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Recommendations



Vertically integrate and personalized manufacturing

- Vertically integrate at a production level;
- This will make room to even lower pricing strategies;
- Gaining the power back over the market by not being influenced by terms, pricing, and availability of supplies or delivery delays. This would highly benefit their delivery times;
- Personalized manufacturing model to deliver customized goods directly to the customer.



Physical Stores: Pop-up Stores

- New way of marketing: Create temporary stores to make themselves known. More people will know the brand, specially outside Gen Z;
- Gives indecisive clients the ability to try the clothes before (check quality, etc) and buy them without having to wait for the delivery.