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(Timon Schneider/Dreamstime, n.d.)

I. Introduction

In 2022, the Wall Street Journal reported that Shein was valued at \$100 billion dollars, worth more than H&M and Zara combined. Earlier in 2023, Shein's valuation fell to \$60 billion amidst investor risk aversion and high interest rates, but still continued to size up its competition. In late November, 2023, Shein was rumored to have confidentially filed to go public in the United States, with Bloomberg reporting a target valuation of \$80-90 billion. However, when most people hear the name "Shein", one of its many controversies are what comes to mind, not its budding future in Wall Street. Despite its strong financials, Shein's poor brand image eclipses the conversation, which begs the question: how will Shein fare as a public company?

II. Early Beginnings

Shein was founded in 2008 by Chris Xu in Nanjing, China. Xu started Shein with the vision of providing affordable and stylish fashion to a global audience. In the early years, Shein primarily targeted the domestic Chinese market, selling women's clothing. At first, the company adopted an online-only retail model, leveraging the power of e-commerce to reach its customer base around the globe. Without physical locations, the company could respond rapidly to market trends, and keep operational costs relatively low.

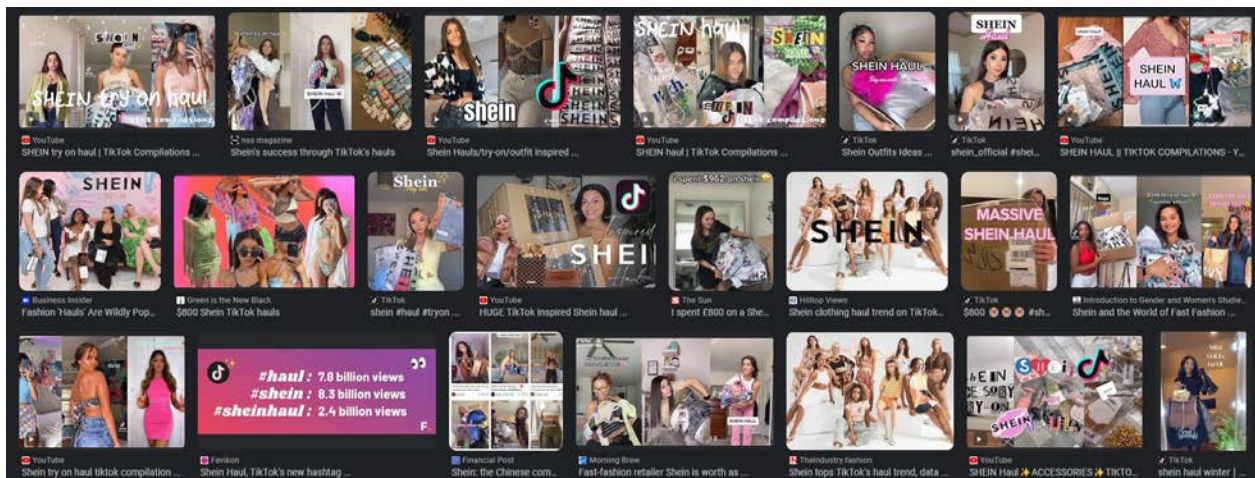


The company's fast fashion model emphasized a quick turnover of inventory to align with rapidly changing fashion trends. Early on, Shein's average order size was small, selling 100 to 200 items a day and 1,000 items on a good day. Its business model was keeping low margins and selling large quantities, which worked for the company. Shein was enticing to customers because its stock was trendy yet came with such cheap price tags that it would be senseless to expect high quality. Its products neither disappointed nor impressed, but they were reliable enough to look good on a budget, which kept buyers coming back.

III. The Rise of a Giant

As e-commerce evolved to become more widespread, Shein expanded its reach internationally, achieving Xu's vision. Shein now offered an extensive product catalog that would be updated with 6,000 new items each day or 2.19 million per year. In comparison, sites like Zara and H&M added 35,000 and 25,000 items to their catalog per year. The company expanded its offerings beyond women's clothing to include men's and children's fashion, accessories, beauty products with Sheglam, and home goods.

Shein gradually became the most infamous online fashion retailer globally with the help of social media. With the 2020 pandemic, millions of people learned of Shein for the first time. Unable to leave their homes to shop, they gave the e-commerce company a shot. With products being so cheap, there was little to lose. Before long, sites like Youtube, TikTok, and Instagram were flooded with Shein product reviews and hauls worth over hundreds of dollars, transforming shopping at Shein into an entertaining viewing experience. As of December 2023, there are 14.3 billion views for the search term "sheinhaul" on TikTok.



(Google Images, 2023)

Currently, the majority of Shein's financial records are inaccessible to the public. From what is available, Shein's sees its total dollar revenue climb each year. It saw considerable revenue growth % from 2019 to 2020 due to the pandemic, doubling from 2019 (\$4.6 billion USD) to 2020 (\$10 billion USD). But overall, Shein's revenue growth % has been declining since 2019, as Shein wanes out of its growth phase and into company maturity.

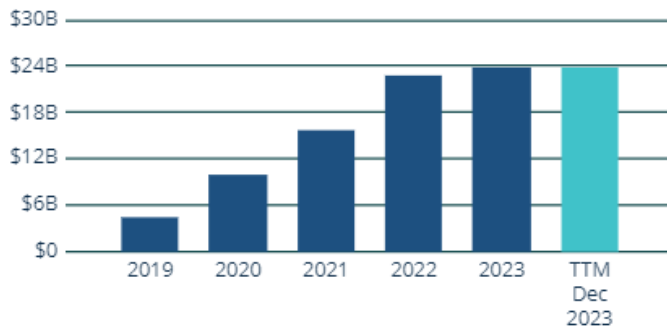


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Total Revenue

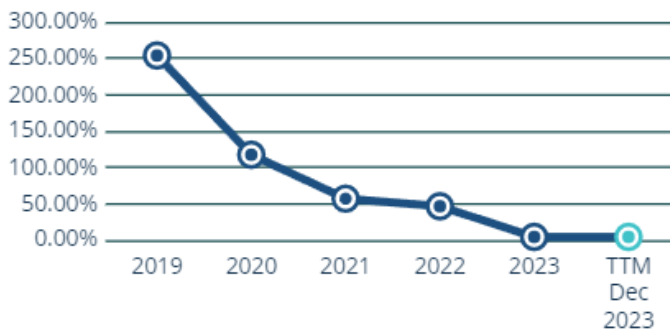
5FY + TTM



(Pitchbook, 2023)

Revenue % Growth

5FY + TTM



(Pitchbook, 2023)

Several companies have observed Shein's remarkable uprising as a dominant force in e-commerce fast-fashion, prompting them to introduce similar brands. Among these entities is PDD Holdings (NASDAQ: PDD), a commerce conglomerate owning and operating various businesses, including the e-commerce platform Temu, headquartered in Boston, Massachusetts. Temu differentiates itself by sourcing affordable products directly from Chinese vendors, bypassing intermediaries, thereby offering prices that undercut Shein's by 10% to 40%.

Temu gained significant traction through strategic marketing initiatives, by investing in social media advertising and securing two Super Bowl commercials during its U.S. launch in September 2022 and subsequent introduction in Canada in February 2023, respectively. Temu drew immediate comparisons to Shein, as both companies originated from China and specialize in providing a broad array of products at competitive price points. Unsurprisingly, this led to legal disputes between the two, with Shein alleging that Temu used online influencers to tarnish Shein's reputation while promoting its own brand and Temu accusing Shein of monopolizing the ultra-fast fashion sector. Given the lucrative nature of this market segment, it's inevitable that additional Shein imitators will emerge, leading to further legal confrontations in the future.



IV. Tainted with Controversy

As Shein gained popularity in 2020, the public started scrutinizing the company more closely. Since that time, Shein has frequently made headlines, drawing criticism for numerous controversies.

Labor Practices:

Employees at Shein reportedly work 75 hours per week with one day off per month. Some factories punish its employees for sewing errors in garments by cutting hourly pay by 30%, from \$20 to \$14 an hour. Other investigations show that factory workers aren't salaried or paid a wage at all. They are compensated as little as 0.27 Yuan or 0.04 USD per garment, and go without pay for garments with mistakes. Furthermore, concerns arise about Shein's compliance with health and safety standards in its facilities, notably the absence of windows for adequate ventilation and emergency exits. Additionally, Shein has received backlash over accusations of mistreating the Uyghurs, a marginalized group in China, and allegedly mischaracterizing instances of forced labor or insufficient pay in its supplier facilities.

Environmental Impact:

Shein's operations release 6.3 million tons of carbon dioxide a year, largely due to their use of synthetic materials including polyester, which takes 20 to 200 years to decompose. The amount of carbon dioxide released by Shein falls below the 45% carbon emissions reduction target set by the UN to reduce global carbon emissions by 2030 and reach net zero by 2050. Additionally, Shein thrives off of microtrends and perpetuates overconsumption. Currently, people reportedly discard 60% of the clothes they buy within the same year, a figure that is set to increase as fast fashion becomes the new norm. Shein recently received a zero-point score out of 150 on a rubric managed by Remake, a nonprofit that promotes improved labor and environmental practices.

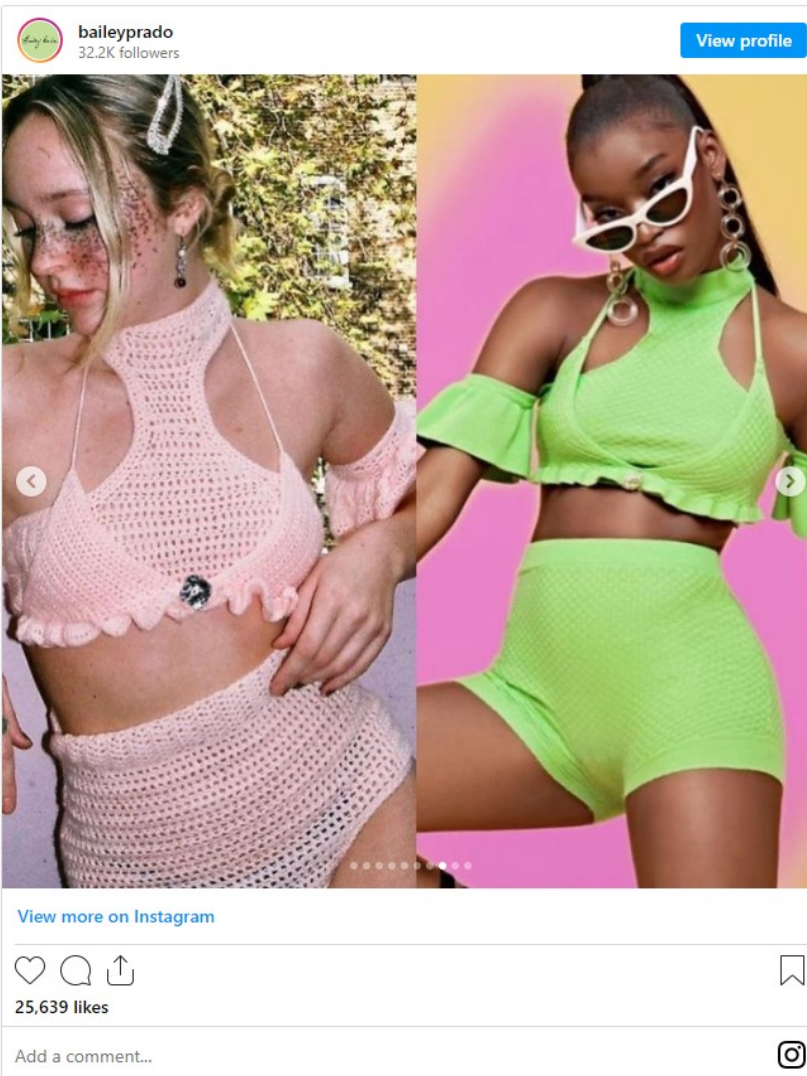
Product Quality and Originality Concerns:

Customer complaints and reviews about the quality of Shein's products are rampant. Some customers have reported discrepancies between the advertised product and the item received, including issues with sizing, fabric quality, and overall product durability. Additionally, hundreds of independent designers and brands have accused Shein of replicating their designs, selling inexpensive imitations that undermine their original creations and livelihoods. Furthermore, toxic chemicals including lead were found in Shein's garments, endangering children and pregnant individuals. In particular, a jacket for toddlers contained almost 20 times the amount of lead that Health Canada says is safe for children.



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(Prado, 2021) Bailey Prado's Design on the Left, Shein's Design on the Right

V. IPO Scrutiny

Shein's IPO is speculated to happen as early as 2024, with JP Morgan, Goldman Sachs, and Morgan Stanley leading the helm. However, lawmakers from both parties and U.S. Representatives are voicing their qualms against Shein's runway to Wall Street.

U.S. Representative Blaine Luetkemeyer has proposed legislative measures that could bar Shein from trading activities, should the U.S. Securities and Exchange Commission fail to deny its IPO request. Moreover, Shein is currently under scrutiny for alleged forced labor practices and exploiting the de minimis provision by the newly established House Select Committee on the Chinese Communist Party. This provision permits packages valued below \$800 to sidestep import duties and some U.S. customs oversight, enabling platforms selling inexpensive Chinese products to avoid substantial taxes and fees. Shein paid no duty fees on imports to the U.S. in 2022. In comparison, H&M paid \$205 million. Moreover, bipartisan lawmakers are pressing the



U.S. Securities and Exchange Commission to mandate that Shein reveal any potential forced labor practices prior to its anticipated IPO in the United States.

“Access to U.S. capital markets is a privilege, not a right, and should not be given freely to corporations who threaten U.S. national security with nefarious business practices, and who are making Americans complicit in their violation of U.S. law,” - Chapin Fay, executive director of Shut Down SHEIN



(Pgaim/iStock, 2017)

VI. Taking Accountability

Shein has publicly committed to implementing corrective measures to rectify its major scrutinies. The company aims to enhance its reputation and foster greater public confidence, as it gears up for its upcoming IPO.

Labor Practices:

Over recent years, Shein has been trying to distance itself from China, its country of founding. In late 2021, Shein moved its headquarters to Singapore and has since made further attempts to move its supply chain away from China, where over 3,000 suppliers are stationed. Throughout 2023, Shein has built manufacturing factories in Turkey, Brazil and Poland to expand its supply chain. In late 2022, Shein addressed concerns around labor law violations, stating that all suppliers would be required to comply with a code of conduct based on conventions by the International Labour Organization. Shein emphasizes its dedication to resolving all supply chain issues. The company built an in-house team that will monitor its supply-chain partners and cooperate with third-party organizations to evaluate its suppliers' facilities. "When violations are found, we take corrective action." - Shein

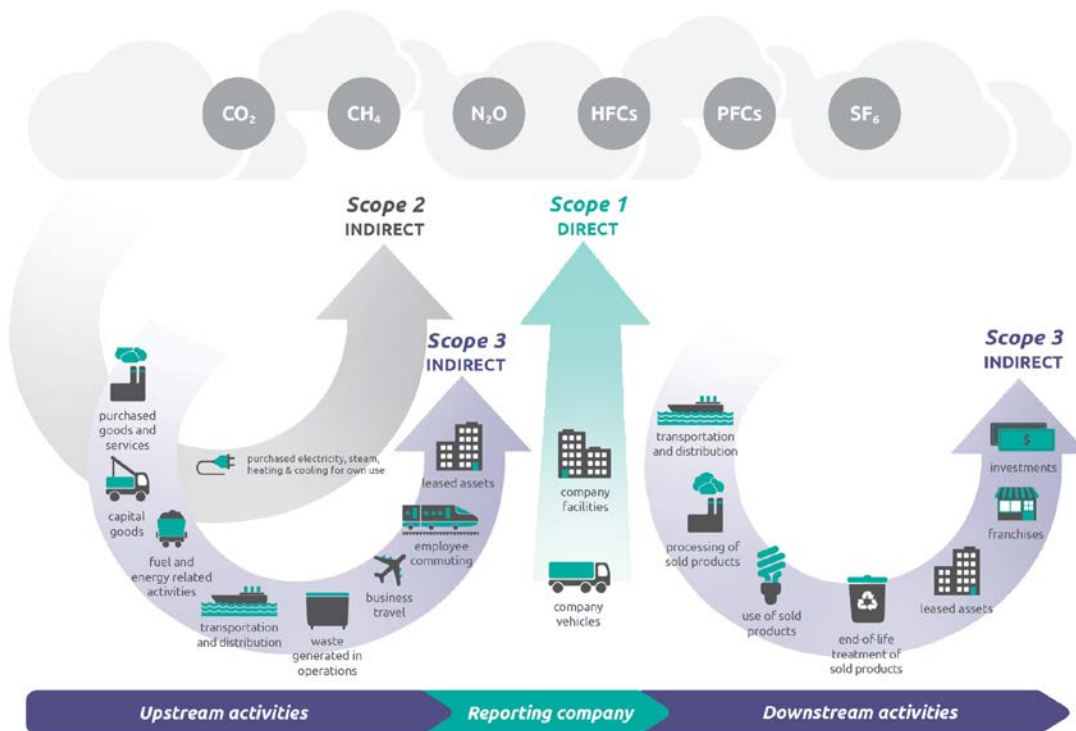


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Environmental Impact:

In October of 2022, Shein announced it would spend \$7.6 million on a partnership with the nonprofit, Apparel Impact Institute, which works with manufacturers to set and implement energy efficiency programs. The projects include the Carbon Leadership program, which benchmarks and assesses carbon impact, and Clean by Design, which will aim to reduce energy, water, and chemical consumption in textile production at more than 500 of Shein's partner facilities. Current environmental targets Shein holds for itself are to reduce emissions (scopes 1, 2 and 3) by 25% by 2030 and become carbon-neutral in scope 2 by 2030 (see below diagram for a breakdown of emissions scopes). The company is also looking to move towards greener packaging by committing to 100% forest-safe viscose and paper-based packaging by 2025.



(Greenhouse Gas Protocol, 2013)

But will Shein's rebrand work?—Yes, if the company can take a page out of Nike's book. Nike was in similar shoes when the company was accused of using sweatshops and child labour to produce its products in the 1990s. The company was exposed for exploiting the cheap labour and operational costs in East and South Asian countries without regard for working conditions and worker qualifications. In the 2000s, protests were held against Nike where several universities, feminist groups and coalitions formed in support of Nike factory workers spoke against the company's labor practices.

In response to this, Nike installed a code of conduct for their factories called SHAPE: Safety, Health, Attitude, People, and Environment in the 1990s. In 1999, Nike established the Fair Labor Association, a non-profit organization that set up independent oversight, and introduced a code of conduct with stipulations like a minimum age and a 60-hour work week. In 2005, Nike



became the first in its industry to publish a complete list of the factories it contracts with and published a 108-page report revealing conditions in its factories and acknowledged widespread issues.

Nike spends around \$10 million a year to follow its SHAPE code and consistently updates its commitments, standards, and audit findings in its corporate social responsibility reports. The company's commitment to making positive change with monetary investment and operational transparency has helped it rebuild its reputation and maintain its brand image.



(Yi, 2020)

VII. Similar Tales, Different Stories

Shein's story may bare resemblance to LightintheBox's (NYSE: LITB). Shein and LightInTheBox are two prominent international e-commerce platforms, originated from China. LightInTheBox, established in 2007, one year before Shein, carved its niche by offering a comprehensive array of products ranging from apparel and electronics to home goods at competitive prices. Like Shein, LightInTheBox does not have their primary headquarters in China. Instead, both companies operate their large supply networks whilst being headquartered in Singapore.

As the ticker "LITB" suggests, LightintheBox is a public company, having made its Wall Street debut on the NYSE on June 7th, 2013. If Shein had emulated LightintheBox and filed its IPO earlier, during a period of less success, but also less scrutiny, the company may have been better off. Although the bad press would've still caught up to the company, it's not impossible for a public company to recover from controversy, just take a look at Nike.

Last December, Time Magazine wrote 'the most downloaded free app on both the App Store and Google Play for much of the last two months wasn't TikTok, YouTube, or Instagram, but a shopping app that didn't exist just four months ago'. Enter Temu. It offers fee products for those who get new clients to sign up and is a subsidiary of Chinese e-commerce giant Pinduoduo Inc. who are allegedly developing a reputation for undelivered packages, mysterious charges,



incorrect orders, and unresponsive customer service. Temu itself has already been subject to more than scores of complaints to the Better Business Bureau, and has a notably poor BBB customer rating of less than 1.5 stars. Pinduoduo Inc's other subsidiary, Pinduoduo, has long been accused of hosting sales of counterfeits, illegal goods, or products that do not match their descriptions. (Pinduoduo wrote in its SEC filings that it immediately removes unauthorized products or misleading information on its platform, and freezes the accounts of sellers on the site who violate its policies.) Meanwhile, despite all the flaws, there have been no BBB complaints that allege the goods Temu ships are counterfeit or fake. Additionally, in 2021, the deaths of two Pinduoduo employees spurred investigations and boycotts over the company's working conditions, according to the New York Times.

Schmidt at Vanderbilt says "This is an interesting example of the manufacturing base in China getting sufficiently sophisticated that it no longer feels like it needs to go through distributors. They're selling directly to consumers. And there are many people who are hurting economically and looking for a bargain," he says. "This is going to put pressure on producers of goods to slash further their cost basis and profit structure—which could have the consequence of further eroding domestic manufacturing in the U.S."

Amazon is a trillion-dollar company and sure, it isn't perfect with its own share of complaints. Still, there is no comparison. It owns cloud services, subscription services, and more. These companies may be effective in the short term in the US hard hit economically but not convinced it is sustainable in the long term.

VIII. Conclusions

For Shein to succeed as a publicly traded entity, it must first address the primary concerns raised by U.S. lawmakers and Congress. This entails releasing a comprehensive third-party audit that unequivocally demonstrates the absence of forced labor within its supply chain.

Additionally, Shein must provide transparent reports on the working conditions across all its supplier factories worldwide, taking decisive action to rectify any deviations from established code of conduct standards. Moreover, Shein needs to pay outstanding import and duty fees owed to the U.S. government, and align future payments with the laws that industry peers like H&M and Zara abide by.

While Shein has outlined ambitious environmental targets, skepticism persists among consumers regarding its commitment due to distant target timelines. To build immediate credibility, Shein should generate positive publicity by pledging significant annual monetary contributions to environmental and climate change advocacy groups. Such actions would demonstrate that, despite being part of the problem, Shein is actively supporting solutions. But ultimately, Shein needs to tackle the root of its issues; the fast-fashion business model. By shifting its strategy—emphasizing quality over quantity and focusing on informed trend forecasting rather than inundating the market with thousands of new products a day—Shein has the potential to wholly reshape its public perception but that remains to be seen.



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