

Analysis of Future Dilemma and Breakthrough of SHEIN

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Abstract: This study examines the critical challenges and prospective strategies for SHEIN, a prominent Chinese cross-border fast fashion e-commerce enterprise, in navigating the complexities of the global market. Key issues identified include inconsistencies in product quality, deficiencies in environmental sustainability, labor rights controversies, and intellectual property disputes. Through a comprehensive analysis of these challenges, the research evaluates SHEIN's current efforts to enhance supply chain transparency, ensure compliance with Environmental, Social, and Governance (ESG) standards, and mitigate reputational risks. The paper further proposes a systematic framework for addressing these challenges, including the optimization of quality assurance mechanisms, the integration of sustainable supply chain practices, the enforcement of robust intellectual property protections, and the implementation of strategic public relations initiatives. The findings suggest that by adopting these measures, SHEIN can achieve sustainable growth, enhance social responsibility, and maintain its competitive edge in the global fast fashion industry.

SHEIN is a cross-border retail fast fashion e-commerce company headquartered in Nanjing, with its business covering the world. SHEIN was founded in 2008, mainly targeting overseas consumer markets such as Europe, America, the Middle East, India, Southeast Asia, etc. Its products include clothing, accessories, shoes, luggage, etc. Its business scope has covered 220 countries and regions. In the post pandemic era, global demand for online shopping has surged. As a leading Chinese fast fashion cross-border e-commerce enterprise, SHEIN has seized the golden period of development and created a revenue of over 100 billion yuan in 2021. In many related overseas market surveys and statistics, as well as in the 2022 overseas brand influence, SHEIN has surpassed Alibaba International Station and JD to win the first place title. In April 2022, SHEIN completed Series F financing, with a valuation of approximately \$100 billion. Such high valuation makes SHEIN rank third in the global list of unicorn start-ups, only next to the ByteDance of about \$140 billion and SpaceX of about \$100.3 billion.^[1] Its international influence and strength are beyond doubt. However, with SHEIN's booming in overseas markets, many problems have also arisen. This research will focus on the analysing what are the problems that the SHEIN is facing and proposing feasible solutions.

1. Problems

Firstly, SHEIN has faced criticism for inconsistent product quality, with some customers reporting issues such as poor stitching, cheap materials, and inaccurate sizing. In addition, SHEIN has also been criticized for its fast fashion model, which can contribute to environmental issues and poor labor

practices. In the end, SHEIN has been accused of copying designs without proper attribution or authorization, leading to a lot intellectual property infringement claims.

1.1. Quality Concerns

Not only are many SHEIN's clothing of poor quality and referred to as disposable clothing, but multiple safety issues have also been exposed. In 2021, some of SHEIN's children's clothing was recalled for violating federal flammability standards in the United States; Clothing accessories for children and pregnant women have also been found to contain excessive levels of lead in countries such as Canada. In addition, according to a report recently released by Greenpeace, hazardous chemicals were found in clothing purchased on the shopping platform SHEIN, which can have a certain impact on human health. This organization randomly purchased 42 items, including clothing and footwear, from several European websites in SHEIN and a pop-up store in Munich, Germany, and sent these products to an independent laboratory BUI for chemical analysis. The experimental data obtained is not optimistic. The phthalate content in footwear products is very high, and even in healthy baby girl dresses that should reduce harmful substances and ensure intimate use, There is also a problem of high formaldehyde content. This phenomenon needs to be taken seriously by platforms, major businesses, and consumers. In this test, 15% of clothing contains hazardous chemicals that exceed EU regulatory standards, and 32% of substances contain "legal" content. However, when this proportion expands to the entire market, it is already a significant number that cannot be underestimated. Greenpeace believes that SHEIN has not fulfilled its regulatory responsibilities as a platform, neglected the environmental pollution and human health risks related to the use of hazardous chemicals in pursuit of profit, and has seriously violated EU environmental regulations on chemicals, such as the EU REACH regulation, requiring timely improvement.

1.2. Sustainability Concerns

Currently, SHEIN has a poor reputation in ESG. ESG is a concept that emerged in the 1980s, meaning "environmental, social, and corporate governance". It refers to an investment and business approach that actively responds to the concept of sustainable development by incorporating environmental, social, and governance factors into investment decisions and business operations. ESG can be seen as an upgraded version of traditional corporate responsibility, placing greater emphasis on the performance of enterprises in areas such as environmental protection and labor rights. Despite being highly favored by foreign consumers, SHEIN's ESG rating is not high internationally, especially in European and American countries. Some European and American environmental organizations have criticized SHEIN's business model, exacerbating waste in the fast fashion industry and potentially leading industry companies to follow suit, further posing a challenge to global environmental protection and green development. In fact, SHEIN is not the only company that has received negative ESG reviews, and there is no company in the global fast fashion industry that can pass any ESG evaluation. According to Kenneth Puck, a Harvard Business Review columnist and senior lecturer at Fletcher College in the United States, from an ESG perspective, although the fast fashion industry claims to be constantly innovating, the industry's production has more than doubled in the past 25 years, with three-quarters ultimately going to landfills or being burned; In addition, a large portion of these fast fashion products have been made from non degradable petroleum based synthetic materials since the 1990s, causing incalculable damage to the environment. Some European and American environmentalists have pointed out that SHEIN, under the guise of pleasing consumers, launches thousands of new products every week and sells them at ultra-low prices. Under a strong marketing campaign, consumers have purchased too many unnecessary SHEIN products. Most of these clothes will only be worn once and quickly thrown into the garbage heap - whether it is the

production or processing of these fast fashion products, they will emit a large amount into the environment.

1.3. Ethical Concerns

SHEIN's face of a lot of criticism regarding labor benefits is another pain point. A third-party investigation has pointed out that SHEIN's supply chain enterprises have a large number of employees working overtime and overload, and the working environment of the workers also needs to be improved. This conflicts greatly with the widely recognized labor treatment in European and American societies.

The fast fashion industry, based on cost considerations, often chooses to outsource the supply chain to low labor costs and fragmented clothing factories. Due to the small scale and low level of automation of these clothing factories, as well as the lack of strict standards, it is easy to infringe on the rights and interests of workers. The BBC has reported on many fast fashion companies, including ZARA, hiring child labor in Istanbul. In the basement workshop of a clothing factory, there are low paying child laborers, with the youngest being only seven or eight years old. As a result, the production mode of fast fashion enterprises has been referred to as "sweatshops" or "modern slavery" by netizens.

Chinese cross-border e-commerce giant SHIEN is also facing such accusations. Although SHEIN's business was oriented overseas, its early supply chain was concentrated in the Guangzhou Panyu area. The urban villages here gather hundreds or even thousands of garment factories, from wholesale and Taobao businesses to now cross-border e-commerce. The complete clothing production chain formed by the garment factories in Panyu is one of the key factors for SHIEN to achieve "ultimate efficiency". However, in the past few years, the vast Chinese factories behind SHIEN are being questioned. In 2021, the Labor Watch organization Public Eye pointed out in a survey report that some of the factories used by SHEIN do not comply with ESG standards. Some workers have stated that they work 75 hours a week and only have one day off per month.

1.4. Intellectual Property Infringement Concerns

The growth of fast fashion brand SHEIN has always been accompanied by intellectual property disputes. In July 2023, Swedish fashion retailer H&M sued SHEIN for copyright and trademark infringement, accusing SHEIN of infringing its trademark and copyright on multiple products sold in the United States. In December of the same year, Temu, a cross-border e-commerce platform under Pinduoduo, sued SHEIN, accusing SHEIN of forcing suppliers to sign unequal contracts, transferring intellectual property rights, and abusing the US legal system for malicious complaints. Recently, on January 16th, Uniqlo's parent company, Fast Retailing Co., Ltd., announced on its official website that Uniqlo had filed a lawsuit against three entities under the company, including SHEIN Japan, in the Tokyo District Court on December 28, 2023. The reason is that the company has determined that the form of the imitation products sold by SHEIN is very similar to its own product, "Dumpling Bun" (round mini shoulder bag). The company believes that this action violates the Unfair Competition Prevention Law and demands that the three companies immediately stop selling counterfeit products and compensate for the losses suffered by the company.

2. Solutions

As an emerging and thriving company, SHEIN has a positive attitude towards the constantly emerging problems. Although these issues are extremely challenging, SHEIN has taken many measures to solve them. Here, this article will summarize the effective measures SHEIN has taken

and propose feasible solutions to further address the problems.

2.1. Optimization of supply chain management

Firstly, SHEIN should strengthen product quality management. It should strengthen internal supervision, establish and improve unified quality definitions, strictly establish selection standards for raw materials such as fabrics and accessories for each product, and conduct periodic inspections of technical personnel and equipment to improve clothing quality. It should supervise suppliers to comply with established control measures and standards, including chemical control lists and standards consistent with REACH in Europe, CPSIA, CPSA and CA65 in the United States, and other regulations. It should also actively cooperate closely with various international third-party testing institutions, conduct regular testing, and ensure that suppliers meet product safety standards.

Secondly, improve the transparency of the supply chain. Shein should actively enhance supply chain transparency, establish partnerships with suppliers, and ensure compliance with ethical and labor rights standards. By publicly disclosing supply chain information, implementing social responsibility projects, and environmental protection measures, SHEIN can enhance brand reputation, increase consumer trust and loyalty.

Then, promote the implementation of green supply chains. SHEIN should develop strategies based on the consumption concepts and habits of the main consumer groups, implement the “green and low-carbon” concept in the supply chain from fabric selection, production and manufacturing, and build a green supply chain.

2.2. Continue to rectify ESG compliance issues

In response to ESG concerns, SHEIN appointed Adam Whitston, an ESG expert with 15 years of experience at Walt Disney and J.C. Penney, as its global ESG leader in 2021. Under his leadership, SHEIN launched the environmentally friendly product line “evoluSHEIN”, using 50%-100% recycled polyester fibers and recycled packaging to promote sustainability. Additionally, SHEIN partnered with the Or Foundation to support social justice and environmental initiatives in Ghana's second-hand clothing market. In September 2022, SHEIN updated its Supplier Code of Conduct, requiring strict compliance with health, safety, and labor standards, including providing workers with safe housing and a formal channel for reporting grievances.

To resolve ESG disputes totally, SHEIN should continue to make efforts in these areas:

In line with international regulations, SHEIN should gain a deep understanding of the relevant legal rules and the latest policies of each destination country or region. SHEIN should understand the current regulatory requirements and related incentive policies for ESG in domestic and international markets, as well as the relationship between these policies and ESG business, and establish and improve ESG related work mechanisms to continuously improve overseas risk response capabilities and sustainable development levels. The Chinese Ministry of Commerce and other relevant departments have successively issued documents such as the “Guidelines for Compliance Management of Overseas Operations of Enterprises”, which have put forward more comprehensive and clear requirements for overseas compliance management of enterprises, covering specific areas such as environmental protection, quality and safety, and labor rights protection, guiding cross-border enterprises to avoid ESG compliance risks. From the perspective of enterprises, they should be more proactive and turn risks into opportunities to effectively and effectively carry out ESG compliance work.

Hire professional management personnel with ESG compliance experience. SHEIN should continue to hire experienced professionals as ESG business leaders. ESG professionals are highly versatile talents who integrate management, measurement and evaluation, green environmental

protection implementation, social responsibility practice, corporate governance, and other fields. They need to possess theoretical thinking ability, policy understanding ability, ESG market insight ability, evaluation and analysis ability, and ESG topic understanding ability.

Improve the professional team of ESG business departments. SHEIN should embed ESG compliance into the strategic core of the enterprise and meet the requirements of regulatory authorities and capital markets to help the enterprise stay at the forefront of international sustainable development. ESG is not only an important reference factor for listed companies to conduct financing operations, but also an important source of reference information for corporate public image and social status. Enterprises need professional teams and personnel, combined with the ESG evaluation system, to innovate and upgrade traditional operating modes in various aspects such as daily management, data collection, and project operation. In addition, it is necessary to continuously increase relevant research and development, explore market opportunities, actively fulfill corporate social responsibility, establish a good overseas image, and organically combine business development with social progress.

Regularly release ESG compliance reports. Major multinational corporations and listed companies in developed countries worldwide are required to issue ESG rating reports. SHEIN should actively, proactively, and effectively participate in ESG related work. Regularly releasing ESG compliance reports is a strong proof and embodiment of responding to global trends and actively participating in the specific content of the United Nations Sustainable Development Goals, including environmental protection and other global governance.

2.3. Strengthening Intellectual Property Policies

SHEIN should strengthen its awareness of intellectual property protection and ensure the originality and uniqueness of its products. This includes strengthening the innovation capability of the design team, improving internal design processes, and avoiding infringement and plagiarism. SHEIN can strengthen its internal processes and policies to better identify and avoid potential intellectual property infringement. At the same time, SHEIN can collaborate or authorize designers to launch limited edition collaboration products to enhance brand image and design authenticity. In addition, SHEIN should strengthen the construction of its internal legal department, hire legal talents in the field of intellectual property, and build an intellectual property team to avoid legal disputes and resolve existing ones. For existing legal disputes, SHEIN should try its best to resolve any ongoing legal disputes related to plagiarism allegations through reaching agreements with the affected parties through settlement, in order to avoid further damage to the company's image caused by legal litigation.

2.4. Improving the company's image

With more and more controversies surrounding SHEIN, coupled with the colored glasses that Chinese companies come with in the international market, SHEIN's corporate image has been greatly affected in the international market. However, the reputation of a company is crucial for its long-term development. In a harsh public opinion environment, SHEIN needs to make efforts in publicity to reverse the company's reputation, in addition to improving its internal shortcomings.

In terms of corporate image reshaping, Chinese food company Weilong has had similar troubles as SHEIN. Therefore, as a successful case of corporate image transformation, Weilong has great reference significance for SHEIN.

Weilong is a food company in China, whose main product is a type of noodle snack called Latiao. Since 2005, CCTV has successively exposed underground black workshops for Latiao production. There are even rumors that the raw material for Latiao is toilet paper, using gutter oil and corpse oil. After a nationwide rectification storm, a large number of Latiao manufacturers went bankrupt, leaving

only about 10% of profitable enterprises.^[3] So Weilong embarked on a long journey to correct the name of Latiao. In order to thoroughly eliminate consumer misunderstandings about Weilong's "junk food", Weilong has created its own hard work and put in full effort to promote it. In 2014, Weilong invested a large amount of funds to establish the third production base of Weilai Food. Weilong adopts a fully automated sterile production workshop and has specially invited a professional team to take photos and videos in the production workshop. As photos and videos become popular on social platforms such as Weibo and Douyin (Tiktok in China), more and more consumers pay for Weilong's cleanliness, hygiene and modernization. In addition to positive promotion on social media, Weilong also improves the company's reputation through public welfare activities.^[4] A good reputation has led people to reaccept Weilong and make it become the most famous Latiao brand in China.

Referring to Weilong's path of reversing reputation, SHEIN should demonstrate to the public the improvement of high-quality mechanical factories, qualified labor systems, and efforts in environmental protection while strengthening supply chain management. SHEIN can use the Tiktok platform, which is also popular in the international market, to publicize its internal improvement efforts in the form of short videos. The content of a short video can include an introduction to the factory assembly line, the design and development process of a series of products, in order to dispel negative impressions of it in the international market. In addition, SHEIN can also increase its visibility by collaborating with international brands. Sponsoring and promoting SHEIN in movies, TV dramas, award ceremonies, and cultural events can also enhance its brand level.

In terms of public welfare, SHEIN has taken significant steps to support its supplier communities and empower working families through the implementation of various programs. By the end of last year, through the "Juxingguang Project", SHEIN provided financial assistance to over 400 families, benefiting more than 700 children in their education stages. This initiative was designed to alleviate temporary economic difficulties faced by supplier employees, ensuring that their children's education and well-being were not compromised during challenging times. In addition, SHEIN has invested resources to build 13 fully equipped children's homes, strategically located in areas where its suppliers operate. These homes offer free services tailored to meet the needs of supplier employees and their families, including high-quality childcare, educational support, and developmental programs for children. To date, these facilities have collectively served nearly 20,000 individuals, creating a safe and nurturing environment that supports both the children's growth and the work-life balance of their parents.^[5] In 2023, SHEIN, Hexi Youwu HOHILIFE, and Guangzhou Hemu Canzhang Public Welfare Innovation Center launched the Sunflower Public Welfare Project, aiming to use leftover clothing production materials to make hair circles and provide employment empowerment for disabled children in the local community. This project is named after the sunflower, which symbolizes luck and happiness. Since the project was launched in early June, over 269 kilograms of clothing production waste have been reused, contributing to reducing environmental waste.^[6] SHEIN should continue to expand its public welfare activities based on this foundation. It also should actively participate in international environmental and labor protection activities, establish a public welfare foundation, and continue to make contributions to social welfare.

3. Conclusion

SHEIN, as a fast fashion brand, has achieved significant success in the international market, but also faces the challenge of brand disadvantage. By strengthening transparency and ethical standards, enhancing brand differentiation and quality control, optimizing supply chain management, and strengthening brand communication and storytelling, Shein can effectively address these challenges and lay a solid foundation for the sustainable development of the brand.

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