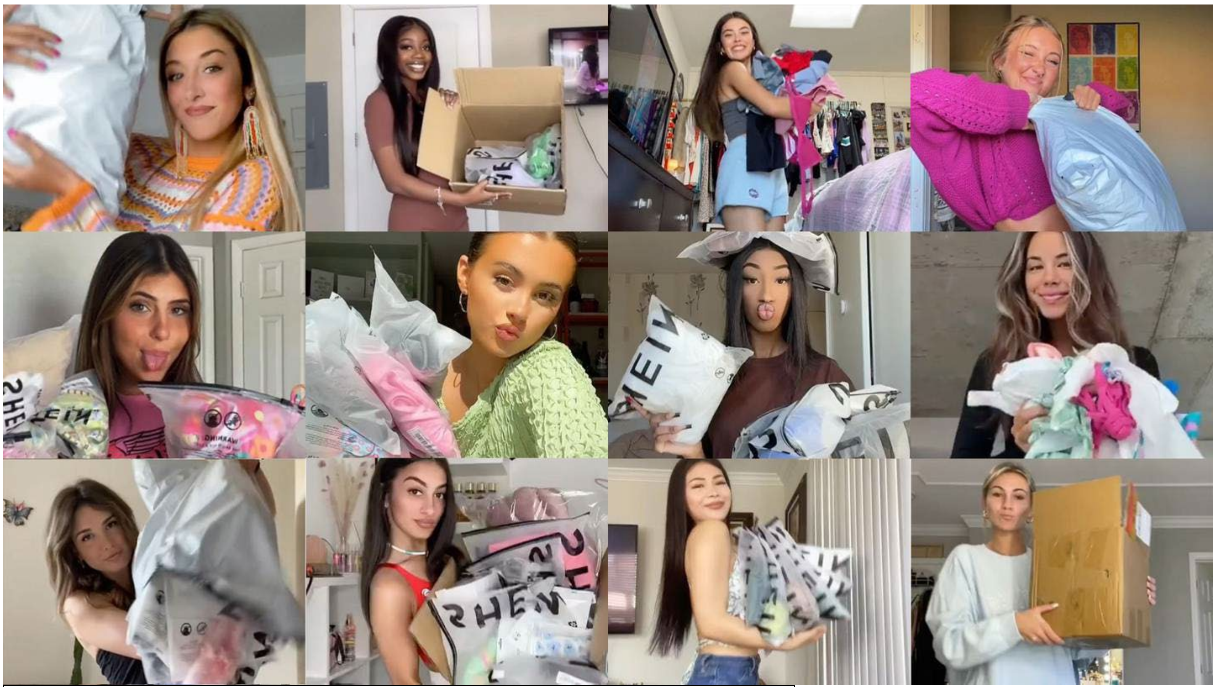
Shein's US Expansion Adds Pressure for Its Fast Fashion Competitors



Shein's US expansion adds pressure for its fast fashion competitors. (Instagram @sheinofficial)

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Fast fashion juggernaut Shein has managed to hook hordes of Gen-Z shoppers in the US despite a key business disadvantage: It has typically offered e-commerce delivery windows of 10 to 15 days that are easily bested by its competitors.

Now, the apparel company founded in China is pushing to get its ultra-low priced merchandise on doorsteps more quickly by establishing distribution centres in the Midwest and California — a significant shift from its practice of shipping individual orders directly to US consumers from overseas.

The logistics investment dials up the pressure Shein has already placed on more established rivals such as H&M and Forever 21, while also threatening the newcomer's profit margins and introducing fresh risks into its business model.

"The time that it takes to get the products to the consumer in the fast fashion world, where a young consumer — particularly a young female consumer — probably doesn't want to think two weekends ahead is really important," said Adam Cochrane, retail and luxury analyst at Deutsche Bank AG.

One Shein distribution centre, located in Whitestown, Indiana, is already operational and could reduce shipping times by up to four days. It currently has 800 employees, with plans to have 1,000 by the end of this year. A second facility is expected to open in Southern California by the spring of 2023, the company said, and it's considering a third such space in the Northeast.

These facilities won't hold Shein's full assortment of garments, but will stock certain products, especially key basics. The inventory will be chosen based on what is selling well in the US and will also reflect seasonality, with gear such as tank tops claiming more space when temperatures climb. The US centres also handle merchandise returns.

Shein is taking a similar tack in other key markets: It has announced plans for a distribution centre in Poland that will serve Europe. And on Tuesday, the company said it opened a 170,000 square-foot warehouse in Toronto, along with a corporate office in the same location.

Improved speed could help Shein — which was valued at $100 billion in a fundraising round earlier this year — build on a remarkably fast rise.

The company, which started selling in the US in 2012, gained traction with its website and app thanks to a consistent stream of new products, ubiquitous marketing on TikTok and extremely low prices. It largely eschews physical stores, save for the occasional pop-up shop.

It's the ninth-most popular apparel brand among Gen-Z women in the US, according to survey data from Morning Consult. That puts Shein in league with classic American labels Levi's and Calvin Klein.

"There have always been disruptors in the fast fashion space, but what Shein brings to this is a bigger scale, coming from China," said Caroline Gulliver, an analyst at Stifel Financial Corp. in London. "It's a dramatic shift in the landscape in the US."

Shein has emerged as a formidable challenger to US chains such as Forever 21 and American Eagle Outfitters Inc. that cater to the same demographic. It also competes with international fast fashion players with a strong presence in the US, including Hennes & Mauritz AB (H&M), Zara owner Inditex SA, and UK-based brands Asos Plc and Boohoo Group Plc.

Shein is expected to generate $24 billion in revenue this year, according to a person familiar with the figures who asked not to be identified. In the first quarter of this year, Shein sales in the US grew 43 percent from a year earlier, versus a 10 percent decline at H&M, according to data from Bloomberg Second Measure.

Bulk Inventory

Still, the development of a US distribution network adds the potential for new costs. The US allows up to $800 of goods from China to be imported duty-free — a limit that was mostly easy to stay clear of when shipping individual customer orders. But if Shein is now sending bulk inventory to distribution centres, it will likely need to ship in heftier bundles that are subject to tariffs.

Also, Shein has typically made small, almost-on-demand batches of its garments — a setup that helps avoid discounting and protects profit margins.

"Once you have a distribution centre in the United States, you're not doing made-to-order anymore," said Sucharita Kodali, principal analyst at Forrester Research. "You're shipping big, bulk quantities of an item that may or may not sell. I don't think that this is some home run, but it's too early to tell."

"The question is, can they maintain their price point with the incremental cost of the US distribution centre?" Cochrane said, noting that Shein's pricing advantage over competitors may narrow.

Shein's effort to expand its US distribution network is part of a race in the apparel industry to rethink logistics to find or maintain a competitive edge.

Trendy online retailer Boohoo is making a move similar to Shein's, opening a distribution centre in Pennsylvania next year which it says will provide three-day delivery windows to 95 percent of the country, compared with a current wait time of 10 days.

American Eagle is moving in a somewhat opposite direction, piloting a program where it will ship merchandise directly from overseas facilities to US customers in an effort to "react more quickly to changing business trends." Quiet Platforms, the logistics arm of American Eagle, will also offer fulfilment services to other retailers looking to ship merchandise from China to consumers in the US.

"By providing companies on our platform with access to upstream pools of inventory, we're enabling them to be less inventory-heavy and more strategic in their assortment decisions," Shekar Natarajan, American Eagle's chief supply chain officer, said in a statement.

Meanwhile, Asos is slowing down investment in automation at its warehouse in Atlanta, in line with expectations that it will handle a lower amount of stock as part of a broad restructuring plan. The brand is losing hope on international growth, noting in a recent earnings statement that expansion outside of the UK has become "excessively capital intensive" which has resulted in a "lack of meaningful growth."

Longer Term Peril

Shein's operational gamble follows a spate of news reports calling it out for high carbon emissions, unfair labour practices and low product quality — none of which appear to have significantly dented consumers' appetite for its merchandise.

But its business model, along with that of peers like H&M, faces longer-term peril. Legislation around the environmental and labour costs associated with garment production is gaining traction globally. A recent investigation found that Shein workers in China were working 18-hour days and being paid £3 ($3.34) per garment — just the kind of situation lawmakers may seek to crack down on.

"All of these fast fashion brands are basically going to face a reckoning in the next even 10 years," Kodali of Forrester said. "They need to figure out how to coexist when the fundamental demand for your business is going to be shrinking, either because the consumer doesn't want it, you're going to be legislated against, or the cost of your raw materials is just going to go up."

By Olivia Rockeman