Why SheIn is an Involution, not a Revolution? “”

15 MIN · YOUTUBE · HTTPS://WWW.YOUTUBE.COM/WATCH?V=T_JQV2HCLTC
https://www.youtube.com/watch?v=T_JQV2hcLTc

SUMMARY

Shane, the Chinese e-commerce giant, has rapidly grown to a valuation of $100 billion, surpassing Amazon in downloads. This episode explores why Shane's unique supply chain model is difficult to replicate for direct-to-consumer (DTC) startups and cross-border e-commerce companies, highlighting its advantages in navigating the manufacturing landscape and leveraging data-driven strategies.

- *Shane operates as a supply chain company rather than a typical DTC or cross-border e-commerce platform, allowing it to dictate terms with factories.*
- *The founder's expertise in SEO and timing enabled Shane to effectively tap into overseas consumer markets and smaller factories.*
- *Shane's model utilizes smaller, more frequent orders, allowing for better testing of consumer preferences and reducing unsold inventory.*
- *Economic conditions in China have led factories to accept smaller orders, creating opportunities for Shane to stabilize relationships and gain trust.*
- *Shane benefits from tax incentives and tariff exemptions that Western DTC brands cannot access, enhancing its cost advantages.*
- *The current political climate favors Shane, allowing it to operate without the scrutiny faced by Western brands regarding sourcing materials.*
- *Increased competition in the fast fashion sector raises customer acquisition costs, benefiting major ad platforms like Facebook and Google rather than the factories themselves.*
- *The concept of "involution" reflects the challenges faced by factories in maintaining profitability under Shane's model, potentially leading to long-term issues in the industry.*

if you are here i assume you have already heard of shane the mysterious chinese e-commerce giant which is said to have more downloads than amazon in 2020. also according to public reported numbers shane after its latest massive funding is now a new member of hetacorn club meaning company's evaluation reached 100 billion today in this episode i want to share with you however what's not covered by most mainstream media after researching

xing in particular why i don't think xin's model can be or should be replicated by dtc or direct to consumer startups and other cross-border e-commerce companies whether they're in the u.s or inside china welcome to tech and borders the intersection of tech capital and geopolitics our typical dtc company is like everlane or warby parker sometimes they are also called category killers because they typically start with a very specific merchant category and go viral by developing intimately followed fans who are loyal customers everlaying for example started with a viral white cotton t-shirt and whoopi parker started with 99 per pair of prescription eye glassware with only one style the retro style a typical cross-border e-commerce platform is like wish app it doesn't own

any inventory but instead consolidates vendors from china to give them direct access to overseas fast consumer market goods market which or similar platforms competes with walmart and amazon and xin is not just a dtc direct to consumer company nor amio cross-border e-commerce platform i consider xin a supply chain company a supply chain company on the other hand is the one who has ability to dictate

the terms with factories the suppliers conventionally it is giant corporations such as a walmart have to say they are also called incumbents shane did it as a startup in barely 10 years span for multiple reasons first the founder started out as one of the earliest seo experts in china the timing seems perfect because he could quickly navigate the overseas consumer market knowing the consumer's preferences for closing manufactures

particularly the smaller ones the smaller factories who would otherwise be clueless about what and whom to sell to also according to what shen told the chinese press it was an early adopter for the smaller orders more frequent orders trends in supply chain meaning that they place much less orders per sku but they have higher returning order frequency because the smaller order allows them to test out the consumer's interests more sweetly therefore

shane can increase viral pieces and reduce unsold items for example shin claims that bozera for every 3000 pieces ordered zara can only test one up to six styles while xing can test 30 styles because xero's average order per sku is about 500 pieces while xing can lower it to 100 pieces per sku this is a significant cost reduction given that the unsold

inventory eats away large portion of fast fashion's profit of course this could be a pr narratives of shane's but from what i learned smaller orders more frequent orders was initially rejected by many chinese factories but eventually being widely accepted partially due to the economic cycle wasn't very friendly to smaller factories in the past few years in china the fact that today shin was able to demand its suppliers to be two hour

driving distance from its headquarters in city of afanui a suburb town near canton the world's most famous closing manufacturing and distribution hub that means xin has skinned an upper hand in picking suppliers on their favorable terms how did it do it by harnessing chinese factories existing big data power for example the popular c2m consumer to manufacturers model this concept is believed to create production

on demand and now it is adopted by many china by many china's e-commerce players such as pindul the market size of consumer to manufacture e-commerce in china reached to 2.5 billion in 2018 and estimated to grow to 6 billion in 2020 according to statista with such adoption that means xin doesn't need to reinvent the gear to retrain factories to be big data savvy instead it takes data driven play to the next level that it allows faster turnaround more precise prediction on styles and the volume therefore fast fashion just become faster and cheaper secondly as said earlier the economic climate in china wasn't friendly to factories and many brands eventually moved their supply chain out of china moved to southeast asia such as vietnam it created unoccupied manufacturing capacity for factories who are unable to

adapt to the down cycle they will of course take orders however small thirdly according to some of machine suppliers shane subsidized certain costs to convince factories to get on board with them who were initially unwilling to take shane's smaller orders as we know in manufacturing there is fixed costs once the production stream line is activated however small or big the order is shane made sure factories don't lose money by taking their smaller orders not

only by subsidizing some of the activation costs but also by paying them on time which believe it or not is a big favor to win over factories because what is factories and oem's worst nightmares unpaid invoice which sometimes could bankrupt the factory if you ever dealt with chinese factories you probably know the client and the factories always have an intimate yet manipulative relationship both sides need to constantly engage in

economic climate and to stay ahead of the fierce price competition you win some you lose some that's a game and because not every factory is able to supply big name brands from the west there are many smaller ones dealing with such uncertainties is part of the cost of being a smaller players in the manufacturing game shane in a way stabilized the relationship by giving stable orders it won over factories trust and eventually able to dictate to

the terms in such relationship that is how a supply chain company is capable of with that said i want to go back to my earlier point why shane's model can hardly be replicated by other e-commerce startups for american dtc startups aside from machines proximity to the factories there are several other reasons first is the tax incentives created by chinese government chinese factories once qualified as an exporter enjoy

certain subsidization or so-called tax reform from the government because their manufactured goods exchanged for u.s dollars for the government therefore helped increasing china's dollar-based foreign currency reserve this is why you see during the china-u.s u.s china trade war manufacturers kept their machines running even after the 15 tariff increase and many of them were left near zero profit margin because they will get a percentage of the invoice as a

cash-based tax refund from the government this is quite a nuanced issue that probably needs another episode to explain but long story short to get back to what we're talking about here western dtc brands are customers clients to those factories they are treated as a counterpart on the other side of the trade table while she on the other hand is considered a catalyst to help enhance the supply chain efficiency somewhat a partner to those factories therefore a

pure western style of dtc e-commerce company can hardly dictate the terms like shin could to cut the overall costs secondly on international tariffs front shin could further lower its cost basis by taking advantage of a free tariff as an overseas vendor for example by law in the u.s if a package contained consumer good is delivered by the international courier such as fedex and the good has less than eight hundred dollar value per

piece the import tax is waived such policies has gained shame some backlashes from the western market for example in uk the media considers such policies a threat to other british fast fashion brands such as osis and boohoo this is another cost reduction a western dtc brand can hardly enjoy thirdly the current political climate is playing to shane's favor xing as a

chinese private fashion company is not subject to political schooling like many western fashions brands would do for example i have not verified but i believe even as small as a brand like everlane it will not procure xinjiang cotton nowadays zara has been constantly scooted for using materials that could be harmful to human body currently it seems shin sales tragedy has not been affected by such exclusivity at all more so as we mentioned earlier when

other closing brands publicly announced the xinjiang cotton all because of the tariff increase during the trade war when they reselecting their suppliers sometime outside of china such situation played to shin's advantage because many factories were left out of business in china they took shin's orders just to keep the lights on as for chinese dtc brands or other so-called cross-border e-commerce companies i also suggest them factor in the following circumstances before they

become aspire to become the next machine as we know fast fashion is a saturated consumer segment brands compete on the razor seam margin not only i don't think there are more cost reduction can be done from supply chain front or so as we know cross-border e-commerce company like shane allocates 20 to 30 percent of budget on advertisement i actually think it could be much higher say 40 percent just to gain customers

shin as we know it its advertisement budget knowledge went to tick tock so if you look at the game you are actually enlarging the pie of social media platforms or total advertisement income and you will find the customer acquisition costs going higher and higher by having more players competing for the same pie and that brings us to my next point who are the real winners in shin's phenomena surprise the answer is neither chinese factory exporters nor tick-tock

the real winner is facebook or google as we know in its early days tiktok for a while is the largest ad customer to youtube aka google and now tick-tock is one of the largest advertisement customers of facebook there is a chinese youtuber who shares insider story from chinese tech industry daily he estimates tick tock spends several billion dollar a year on facebook advertisement just to keep its user

growth by the way if you understand chinese and are interested in china's tech business i highly recommend listening to his channel i will include a link in the show notes in one of his recent episodes he explained why facebook and tick tock have a love and or hate relationship or beat the press is filled with head noise about how these two are constantly getting on each other's nerves the fact is tick tock is one of facebook's biggest customer so back to shane if there are three or four more aspiring next exchange to be it only increases facebook or google's ad revenue and lastly why i don't think chinese factories and exporters will gain much from shin's game either remember xiaomi the chinese mobile giant who is also a dominant brand in chinese smart home and other consumer electronic segments if you are a chinese entrepreneur in such space you probably have heard a few years back xiaomi created a smart

home ecosystem inside china and incubated many sister brands off which xiaomi is the essential stakeholder those brands are called members of me family me family suites encourages such brands to work with the factories exclusively to avoid copycats or to gain market dominance newer by xiaomi's branding power many factories joined the suites sadly many factories also end up zero profit and some filed for bankruptcy

because they just couldn't drive down the costs like me family demands and they don't have the venture capital type of investment to bank them up it was a hard lesson learned by many electronics factories in china i'm not saying xing has such demanding terms as xiaomi did in fact i heard shin is flexible in terms of exclusively but my point is that there is not much margin to manipulate in fast fashion segment or in any other fast-moving

consumer goods sectors it will be a zero-sum game for factories recently there is a bus world trending in china it is called lei juan or in english involution it captures current generations frustration particularly among young chinese who see limited career growth opportunities some describe themselves the involuted generation shin's story somehow reminds me this buzzword some ways shin is not a revolution but

an involution it doesn't increase the overall innovation nor the productivity in chinese manufacturing but instead driving down the already thin profit margin which eventually will come back to bite factories and exporters and that concludes my research on xing what do you think of shane feel free to leave a comment below or contact me directly and stay tuned for the next episode