2022 MICCSR CASE

Milgard Invitational Case Competition on Social Responsibility

The Fast Fashion Industry & Shein

Authored by
Dr. Shahrokh Saudagaran

Sponsored by

STARBUCKS®

MILGARD
SCHOOL OF BUSINESS

CENTER FOR
LEADERSHIP & SOCIAL RESPONSIBILITY

Fast Fashion

Fast fashion can be described as cheap, trendy clothing that is based on styles copied from the catwalk and celebrity culture and brought to market at breakneck speed. The strategy is to bring the hot new look to customers at affordable prices and as fast as possible while they are at the height of their popularity. As a columnist for the Ethical Consumer wrote:

"Fast fashion is 'fast' in a number of senses: the changes in fashion are fast; the rate of production is fast; the customer's decision to purchase is fast; delivery is fast; and garments are worn fast usually only a few times before being discarded."

History

The term fast fashion was coined by the New York Times in the early 1990s to describe the apparel retailer Zara's mission to take a garment from a designer's concept to making it available on its store shelves in 15 days. Zara and Hennes & Mauritz (commonly known as H&M) are widely regarded as the two firms that pioneered fast fashion.

H&M was founded by Erling Persson in 1947 in Vasteras, Sweden and moved towards a fast fashion business model in the 1990s. Zara was launched in 1963 in Galicia, Spain by Amancio Ortega and its switch to fast fashion coincided with his move to New York in the 1990s.

The fast fashion model has seen dramatic growth in recent years. In addition to H&M and Zara, other global players in this segment include Boohoo (UK), Forever 21 (US), Mango (Spain), Missguided (UK), Primark (Ireland), Shein (China), Uniqlo (Japan), Urban Outfitters (US), and Zalando (Germany).

The Fast Fashion Industry & Shein

Impact of Fast Fashion

On the environment

Fast fashion is criticized for having wide ranging and significant negative impacts on the environment. Its use of cheap toxic textile dyes make the fashion industry the second largest water polluter globally after agriculture. The rise of fast fashion is heavily dependent on synthetic fibers such as polyester, nylon, and acrylic which are made from heavily processed petrochemicals derived from fossil fuels that contribute to global warming. When washed, polyester sheds microfibers that add to the increasing levels of plastics in oceans. Synthetic fibers are widely used in fast fashion because they are cheap to produce. For example, the cost of polyester is half that of cotton and it allows the fast fashion industry to keep prices low, albeit with a high environmental cost.

Even the use of a natural fiber such as cotton can be a problem at the scale at which fast fashion demands because the cultivation of cotton requires enormous quantities of water. Cotton production also uses 16% of the world's insecticides. The processing of leather also impacts the environment negatively with 300 kg of chemicals added to every 900 kg of animal hides tanned.

The global fashion industry is the second most polluting industry in the world, responsible for 10% of worldwide annual carbon emissions, more than that produced by aviation and shipping combined. If unchecked this is expected to increase by an additional 50% by 2030.

The endless creation of new clothes comes with a heavy environmental price tag. The sector uses 93 billion cubic meters of water annually and is responsible for 20% of industrial water pollution as a result of textile treatment and dyeing.

Fast fashion is responsible for enormous amounts of textile waste since many of the clothes bought are thrown away after being worn just a few times. This results in an estimated 92 million tons of textile waste annually which is either burnt or ends up in landfills with less than 1% being recycled into new garments.

On workers

Critics charge that fast fashion workers toil in dangerous conditions without fundamental human rights. They are paid poorly and are subject to abusive and exploitative practices. To keep their prices low, fast fashion brands outsource the manufacture of their apparel to sub-contractors in countries with a history of low labor protection. In the average garment factory people are often forced to work 14-16 hours a day, 7 days a week, for less than minimum wage.

The Fast Fashion Industry & Shein

In April 2013, in one of the most horrific garment industry accidents in history, over 1,100 workers were killed and 2,500 injured in the Rana Plaza disaster in Bangladesh. However, mistreatment of workers in the fast fashion industry does not just occur in developing countries. In the U.K., the fast fashion brand, Boohoo, was found to provide unacceptable working conditions and to underpay its workers in its factory in Leicester and across its supply chain.

On consumers

Fast fashion fosters a throw away culture because of both the built in obsolescence of the products and the speed at which trends emerge. Many fast fashion consumers in their teens and early twenties – the demographic that the industry targets – admit that they only wear their purchases once or twice.

It is arguable whether a disposable mentality results in overall reduced cost of clothing for customers. Frequent purchases of fast fashion garments can add up in the aggregate and exceed the cost of buying fewer higher quality pricier clothing items which have a longer life.

While customers bought 60% more articles of clothing in 2020 than in 2000, the clothes they purchased only lasted half as long as they used to. Every year customers lose approximately $500 billion in value due to clothing that is barely worn, not donated or recycled, or ends up in a landfill. One survey suggested that 3 out of 5 fast fashion items end up in a landfill after just being worn 2-3 times.

Supporters of fast fashion argue that it is a model that has "democratized" fashion making stylish clothing accessible to a larger segment of the population beyond just the rich and famous. It also provides attractive returns to managers and shareholders in these companies.

On animals

Fast fashion also has several harmful effects on animals. Toxic dyes and microfibers released in waterways are ingested by land and marine life to devastating effect. According to the Ellen MacArthur Foundation, half a million metric tonnes of microfibers, equivalent to 50 billion plastic bottles, flow into oceans every year posing a grave threat to marine life. Animal welfare is also put at risk when real fur from cats and dogs is passed off as faux fur. The large quantities of real fur being produced in fur farms, often under terrible conditions, makes it cheaper to use in garments than faux fur. Ironically, thus real fur is often passed to unsuspecting shoppers as faux fur.

Business Model

While H&M and Zara pioneered the fast fashion model, the Chinese company, Shein, is emerging as the dominant player in this segment of the apparel industry. Since its launch in 2008, it has developed a strong following among consumers in their teens and early 20s. According to The Economist, in May 2021, Shein achieved the distinction of becoming the most downloaded shopping app in the US, surpassing the retail behemoth, Amazon. Shein's business model is based on the tenet that more is better, that excess can be made affordable through mysteriously low prices with little regard for environmental costs or its suppliers' labor practices. Its business model drives and depends on overconsumption.

Whereas Zara launches approximately 10,000 new products in a year, Shein releases 6,000 items with new designs or colors every day! Its permanent virtual wardrobe contains 600,000 individual items. A search on its website shows tops available for under $6, dresses for under $10, and clearance items for under $5. It has collaborated with celebrity musicians such as Katy Perry, Nick Jonas and Lil Nas X. Shein has over 250 million followers across Instagram, TikTok and other social media platforms and it boasts 24 million daily active users.

Concerns

As its visibility and footprint in the fast fashion segment have grown, Shein has come in for increased scrutiny and criticism for fostering waste and harming the environment. Its scale and speed have invited the label "ultrafast fashion". Some of the criticism of Shein is based on concerns similar to that for the fast fashion segment in general. These include its adverse impact on the environment due to pollution and waste. There are also issues related to the poor treatment of garment workers. The company has not publicly disclosed workers' wages or hours. Reuters reported that Shein has failed to disclose information about its working conditions and supply chain to the British Government which it is required to provide under UK law. Swiss advocacy group, Public Eye, found that garment workers across six locations in Guangzhou (that exclusively supply Shein) were working 75 hour weeks and multiple shifts a day often with only one day off per month. The group, Clean Clothes Campaign, visited a 16 milllion square foot Shein warehouse in Guangzhou. At one supplier site it found no emergency exits and barred windows which can prove fatal in the event of a fire. Like other fast fashion brands, Shein is also facing questions over whether it uses cotton grown in the Xinjiang region of China where the government is accused of using the Uyghur Muslim population into forced labor.

The Fast Fashion Industry & Shein

Aside from the environmental and social concerns, questions have also been raised about the lack of financial transparency at Shein. In social media posts, Shein reported sales exceeded US$3 billion in 2019. However, it later removed the posting and declined to comment on whether the 2019 sales figure was accurate. Another media report estimated its sales in 2020 at approximately US$10 billion. Zhesang Securities, a Chinese broker, estimated Shein's gross merchandise value to exceed US$20 billion in 2021. This lack of transparency is enabled by the fact that Shein is backed by big American and Chinese venture capitalists -- Sequoia Capital and IDG Capital respectively. Its executives do not make themselves available to Western media. Consequently nobody outside the company is able to determine whether it is profitable. This makes it extremely difficult for analysts to gauge its financial position. Previous funding rounds have put a valuation of US$15 billion on Shein. Another risk specific to Shein is that it relies on collecting a lot of data from US shoppers. In 2020, TikTok, which similarly collects data on Americans, narrowly averted a forced sale to US investors over fears that it could be pressured to share the data with the Chinese government.

All of the concerns with fast fashion, have given rise to a backlash and a call for "slow fashion" focusing on sustainable and ethical business practices in the clothing industry. The boss of Zalando, Europe's biggest online clothing retailer in an interview with the Financial Times said that fast fashion must be abandoned within a decade. Some apparel brands have begun to highlight their focus on slow fashion--- Levi's with its "Buy Better, Wear Longer" campaign and Patagonia with its "Buy Less, Demand More" campaign.

Sources: Wall Street Journal, Economist, The Financial Times, Bloomberg Business Week, Vox, Ethical Consumer, BBC.com

ASSIGNMENT

As an investment officer at a state employees' pension fund (with a portfolio of several billion dollars) you have been asked to explore investing in a fast fashion apparel company.

- What financial and non-financial disclosures would you require to assess candidate companies' viability?
- Would you invest in Shein? Would you invest in another fast fashion company?
- Would you invest in an apparel company not in the fast fashion segment?

Explain your decisions based on financial and social responsibility criteria.

STARBUCKS®

INSTRUCTIONS

All dates and times listed in Pacific Standard Time (PST)

- You have one week to research, record your presentation and upload their video to a private YouTube channel. Make sure to include the team name (i.e. A1) and YouTube link on the first slide of your presentation (instructions available at https://www.tacoma.uw.edu/business/clsr/miccsr-rules).

- The deadline to submit your slide deck and link to your YouTube video is exactly the same time on Friday, February 18 as when you received the case on Friday, February 11. For example, a team that receives the case at 11 am local time on Friday (2/11) must submit their presentation by 11 am local time on Friday (2/18). Late submissions will not be accepted.

- Do NOT identify your university by name in your presentation and Power Point. Identify your team by the number assigned to you (e.g., Team A1, Team A2 etc.)

- While you may (and should) practice your presentation between February 18 - 23, you may not make any changes to the content of your slideshow nor add any research or conclusions after you submit your presentation on February 18.

- Your video presentation should be no longer than 15 minutes. During our synchronous preliminary round on February 24, the judges will have 15 minutes to ask you questions about your presentation (Q&A) and 10 minutes to provide you feedback.

- If your team is selected for the final session, you will present LIVE (via Zoom/YouTube) on Friday, February 25. All team members should plan to be present for this presentation.

- Be prepared to defend your position in a professional manner that is grounded in your own research about the company, the market, and its competitors.

You may use any publicly available information about companies, the fashion industry, and trends in corporate social responsibility. You may not contact any other organizations for information nor consult anyone outside of your team. This case provides the opportunity for you to use your knowledge, research, and analytic skills to explore the issues related to corporate social responsibility, social impact, environmental and social sustainability, financial statement analysis, company stock returns and other related topics.

MILGARD
SCHOOL OF BUSINESS

CENTER FOR
LEADERSHIP & SOCIAL RESPONSIBILITY

STARBUCKS