



The Fast Fashion Industry & Shein

Milgard Invitational Case Competition on
Social Responsibility 2022

Group D2:

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https://youtu.be/nl_0MLHggay

Executive summary

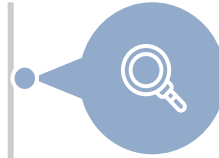
CONTEXT	Fast Fashion and Shein	
ISSUES	Environmental, social and ethical	
ANALYSIS	Financial and non-financial disclosures	
DECISIONS	Financial and non-financial disclosures we will require to assess companies' viability? Will we invest in Shein or in the Fast Fashion industry? Will we invest in an apparel company?	
RECOMMEND	Slow fashion and circular economy	

CONTEXT



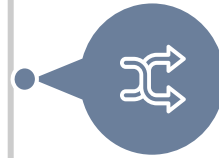
Fast fashion and how it works

FAST FASHION



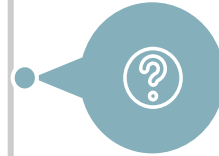
Quick replicating fashion trends

By drawing current trends fast fashion quickly turn them into manufacturing



Shortened manufacturing cycles

Shortened manufacturing cycles to 2-3 weeks versus the over six months of existing players/competitors



Just-in-time logistics

Making Clothes available by the the central warehoused to the flagship stores in 24-48 hours



Wide variety

High turnover of clothes, changing styles and designs each week, so the consumers could have a wide variety

Shein Business Model: Key facts



GHOST FACTORIES

Partnering with small wholesalers and integrating them into its ecosystem.



MARKETING

Ubiquitous presence all over social media, specially TikTok



CUSTOMER BASE

Focus on a global unisex public, mostly under 25.



DESIGN

Dedicated in-house designer teams to monitor trends and quickly develop products based on current trends



TURNOVER

Extremely short manufacturing cycle centered in the region around Guangzhou

Shein: Explosive growth



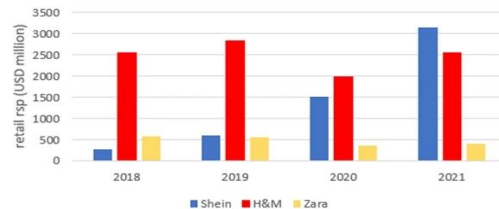
Website Traffic



Cannibalizing Competitors

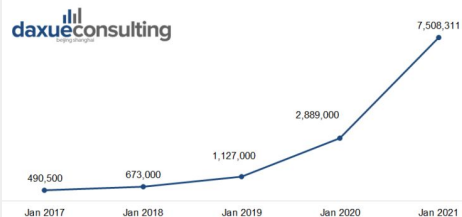


Figure 2. Shein, H&M and Zara in the US: Retail Sales rsp (curr/con, USD million) 2019-2021



Growing Client Base

US Monthly active users of the SHEIN app on iOS and Android devices



Becoming a Big Player

2021Q1 Sales (U.S., Online and Offline)



Data: data estimated from media reports. Zara (Inditex) data estimated from public filings. Gap and H&M data from company public filings. Source: Statista, Shein Group, H&M, Gap and Zara (Inditex), SHEIN 2021 Q1. Data by Statista Research.

ISSUES



Misleading reporting

Metrics



Production

MODEL

- 'Proximity manufacturing' to ensure the flexibility and quality required to introduce new designs twice a week
- Supply chain spanning 1,866 suppliers and 7,235 factories
- 12 clusters account for 96% of production
- Search for product excellence, safeguarding product health and safety and maximising sustainability
- Respecting and safeguarding Human Rights



PROJECTS

- Culmination of the Strategic Supply Chain Plan for 2014-2018 and introduction of the new plan, Workers at the Centre 2019-2022
- 12,064 audits (pre-assessment, social, special and traceability audits)
- Review, expansion and constant fine-tuning of our product health and safety standards (Clear to Wear, Safe to Wear, The List, etc.)
- Closing the Loop Programme
- Join Life



RESULTS

- 57% of productive capacity is proximity manufacturing
- 34,158 tonnes of clothing collected in our ~~combines since 2016~~
- **88% of our waste is reused or recycled**
~~150 million from the garments~~
- 19,780 controlled/limited substances added to The List
- Progress towards target of Zero Discharge of Hazardous Chemicals (ZDHC)

Scope

4.1. Indicators scope

The environmental indicators system includes the data obtained between 01 February 2018 and 31 January 2019.

The data are shown in absolute and relative terms, with the latter being calculated based on the surface square metres of our facilities, for the purpose of representing the efficiency reached after the company activities and the continuous improvement derived from the management.

The scope of the indicators includes the facilities of the Inditex Group, specifically:

- The head offices and the head offices of all brands: Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, Uterqüe and Tempe, all of them located in Spain.

- All Group factories, all of them located in Spain.

- All Group logistics centres.

- All of our own stores.

**Leaving out of indicators
supplier factories and facilities
over the globe**

Inditex Annual Report 2018, page 28 and 282

Recycling/garment programs and “eco-friendly” clothing lines

MARKET

Ineffective “feel-good” measures with no real impact are common.



[H&M's Official Facebook Page](#)



[H&M Recycling Bin, The Guardian](#)



[H&M's garment](#)



80%

Of textiles end
up in landfills
or incinerators
and only 20%
is recycled

WorldWildLife Fund, 2017



Desert of Atacama, Chile ([Exame](#))



Accra, Ghana ([Hypeness](#))



Desert of Atacama, Chile ([Exame](#))



Accra, Ghana ([Inside Edition](#))

CONTEXT

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Team D2

Impact on developing countries and working conditions

By IE Staff

First Published: 10:57 AM PDT, September 18, 2021

Each week, roughly 15 million pieces of used clothing arrive in Ghana's capital, Accra. Traders buy in bales for anywhere from \$25 to \$500, and try to re-sell to make a profit.

[Inside Edition](#)

14 to 16 hours
per day
is the average working day in
most manufacturing countries



Garment workers must work
until 2 or 3 am
during peak season
**to meet deadlines imposed by
fashion brands**



96 hours
per week
is the normal working week for a
garment worker



[Sustain Your Style](#)

FORCED LABOUR IN THE FASHION INDUSTRY

Many cases of forced labour have also been reported along the supply chain of the fashion industry.

The most infamous example was taking place until recently in Uzbekistan, one of the world's largest cotton exporters. Every autumn, the government was forcing over one million people to leave their regular jobs and go pick cotton. Children were also mobilized and taken out of school to harvest cotton. Uzbekistan managed to accelerate the fight against child and forced labour in 2020 and has now almost eliminated it.



[Sustain Your Style](#)



April 22, 2015

"Whoever Raises their Head Suffers the Most"

Workers' Rights in Bangladesh's Garment Factories

[Human Rights Watch](#)

CONTEXT

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Team D2

Recycling/garment programs and “eco-friendly” clothing lines

SHEIN

No exception to the rule.

Our Role in Recycling

We've implemented **an incentivizing Recycling Program** that encourages customers to bring in unwanted clothes to our pop-up and college campus events in exchange for **SHEIN gift cards**. The donated clothes are then refurbished and given to various charities to help people in need.

Even our technology is environmentally-conscious

Our fabric printing process produces a fraction of the pollution of traditional screen printing. And, we only use this process when there's a demand for it, which means we reduce the consumption of raw materials. When selecting materials, we do our best to source recycled fabric, such as recycled polyester, a non-virgin fibre that has little impact on the environment and reduces damage to the original material.



Shein's greenwashing?

Flagrant disregard of workers' rights

Shein suppliers' workers doing 75-hour week, finds probe

By Lora Jones
Business reporter, BBC News

Low transparency and accountability

**EXCLUSIVE Chinese retailer
Shein lacks disclosures, made
false statements about factories**

By Victoria Waldersee

Little control over the products offered

**SHEIN Apologizes For Selling
Swastika Necklace**

Fashion Transparency Index

13.2%

Brands' social and environmental policies for both their own employees and workers in the supply chain, how these policies are implemented, if brands have relevant goals and targets in place and if brands are reporting annual progress against these targets.

Policy & Commitments

5.2%

Who on the executive board has responsibility for social and environmental performance, how this is implemented, how social and environmental improvements are linked to employee, CEO and supplier performance, and whether the relevant department can be easily contacted by the public.

Governance

29.6%

We expect brands to publish supplier lists at three levels: manufacturing, processing facilities and mills, and raw materials. We also look for extra details such as supplier address, no. of workers, gender breakdown, no. of migrant workers, union representation and when the list was last updated.

Traceability

18.8%

What brands disclose about their due diligence process, how they assess suppliers against their policies, what are the results of these audits and assessments, what brands do when problems are found, how workers can file complaints and how those complaints are addressed.

Know, Show & Fix

33.2%

What brands disclose on a number of issues, including COVID-19 response, living wages, purchasing practices, unionisation, racial and gender equality, overproduction, waste and circularity, sustainable materials, water and chemicals, climate and deforestation.

Spotlight Issues

Shein



0-5% overall score, **lowest possible score** in 4 out of 5 categories

CONTEXT

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Team D2

DISCLOSURES



Social and environmental disclosures and metrics



RAW MATERIALS

Environmental impacts, toxicity, origin, supply chain traceability and certification of materials used, as well as animal welfare.

% raw materials certified

% suppliers assessed for environmental and social impacts



LABOR PRACTICES AND HUMAN RIGHTS

Work standards in operations and supply chain (size, intensity and region of operations), Occupational Health and Safety, workload, forced and child labor in operations and supply chain.

fatalities/illness rates of work-related injuries

detected events of underage workers



WATER, WASTEWATER AND CHEMICALS MANAGEMENT

Water use intensity, water stress in areas of operation, potential environmental contamination and toxic emissions, compliance with restricted substances, safety of chemicals used in products.

water withdrawal

water discharge

material used



CLIMATE CHANGE AND BIODIVERSITY

Carbon intensity of products, climate and biodiversity risks assessment, greenhouse gases (GHG) emissions (scopes 1, 2 and scope 3).

direct GHG emissions

energy consumption

size of restored habitat areas

Social and environmental disclosures and metrics



WASTE AND CIRCULARITY

Waste management program, waste generation in operations and delivery, volume of waste out of products and packing, reverse logistics (RL) program, recyclability.

waste by type and disposal

presence of RL program

% of reused materials



CONSUMER BEHAVIOR

Buying fashion items has never been so easy, clothes are becoming unfashionable quickly and being used way less than possible.

product use time / lifetime

nº marketing advertising on excessive consumer behavior



DIVERSITY AND EQUALITY

Presence and distribution of women in the workforce, as well as people of different diversity groups, such as ethnicity, LGBTQIA+, also in supply chain.

women wages / men wages

% diversity in workforce

incidents of discrimination



BUSINESS ETHICS

Business model, presence of a labor code of conduct, anti-bribery and anti-corruption actions in operations and supply chain.

2021 **Corruption Perception Index** (CPI) score for China: **45/100** 

<https://www.transparency.org/en/cpi/2021>

% of supplier facilities audited to a code of conduct

of non-conformances for labor code of conduct audits

Metrics selection for identified relevant disclosures




Comparability

Relevance

Measurability



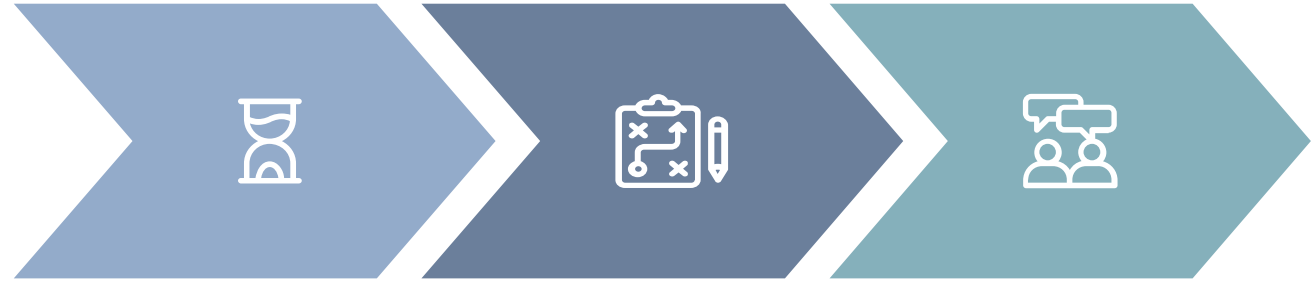
Correlation map of social and environmental disclosures

FRAMEWORK	Raw materials	Labor practices and HHRR	Water, wastewater and chemicals	Climate change and biodiversity
	<div>301 308 414</div>	<div>401 402 403</div> <div>406 407 408</div> <div>409 411 412</div>	<div>301 303</div>	<div>302 304 305</div>
	CG-AA-430a.1 CG-AA-430a.2 CG-AA-440a.1 CG-AA-440a.2 CG-AA-000.A	CG-AA-430b.1 CG-AA-430b.2 CG-AA-430b.3	CG-AA-250a.1 CG-AA-250a.2	-
	Raw material sourcing Controversial sourcing	Labor management Supply chain labor standards	Chemical safety	Product carbon footprint

Correlation map of social and environmental disclosures

FRAMEWORK	Waste and circularity	Consumer behavior	Diversity and equality	Business ethics
<div>GRI STANDARDS</div> <div>SASB</div> <div>MSCI</div>	<div>301</div> <div>306</div> <div>-</div> <div>-</div>	<div>416</div> <div>417</div> <div>-</div> <div>-</div>	<div>404</div> <div>405</div> <div>406</div> <div>-</div> <div>-</div>	<div>102</div> <div>205</div> <div>206</div> <div>-</div> <div>Governance</div>

Financial Analysis



TIME HORIZON

Long term




RISK APPETITE

Client's retirement are
at stake

STAKEHOLDERS

Thousands of
interested parties

Financial Disclosures

PROFITABILITY	A scalable business model, able to expand while maintaining efficiency.	
GROWTH	Sustained and organic growth, displays of long-term planning and foresight.	
DEBT	A manageable level of debt, in line with the funds' risk appetite.	

Profitability

GOAL: A scalable business model, able to expand while maintaining efficiency.



Metric	Calculation	Rational	Sector Average (World)*	Desired Target
Return on Equity	$\frac{\text{Net Income}}{\text{Shareholders' Equity}}$	Expected return for shareholders, after debt servicing and taxes.	16.7%	> 20%
EBITDA Margin	$\frac{\text{EBITDA}}{\text{Revenue}}$	Operational profitability, focusing on the essentials.	11.2%	> 13.5%
Gross Margin	$\frac{\text{Net Sales} - \text{Cost of Goods Sold}}{\text{Net Sales}}$	Measuring profitability after direct expenses and control of the company over product costs.	46.6%	>= 46.6%

*Source: Prof. Damodaran

Growth

GOAL: Sustained and organic growth, displays of long term planning and foresight



Metric	Calculation	Rational	Sector Average (World)*	Desired Target
Retention Ratio	$\frac{\text{Retained Earnings}}{\text{Net Income}}$	Long-term sustainability of growth	64.2%	$\geq 64.2\%$
Revenue CAGR in the last 5 yrs	$\left(\frac{\text{Revenue Y+0}}{\text{Revenue Y-5}} \right)^{\frac{1}{5}}$	Annualized growth rate over the last 5 years	1.9%	$> 3\%$

*Source: Prof. Damodaran

Debt

GOAL: A safe and manageable level of debt, in line with the fund's risk appetite.



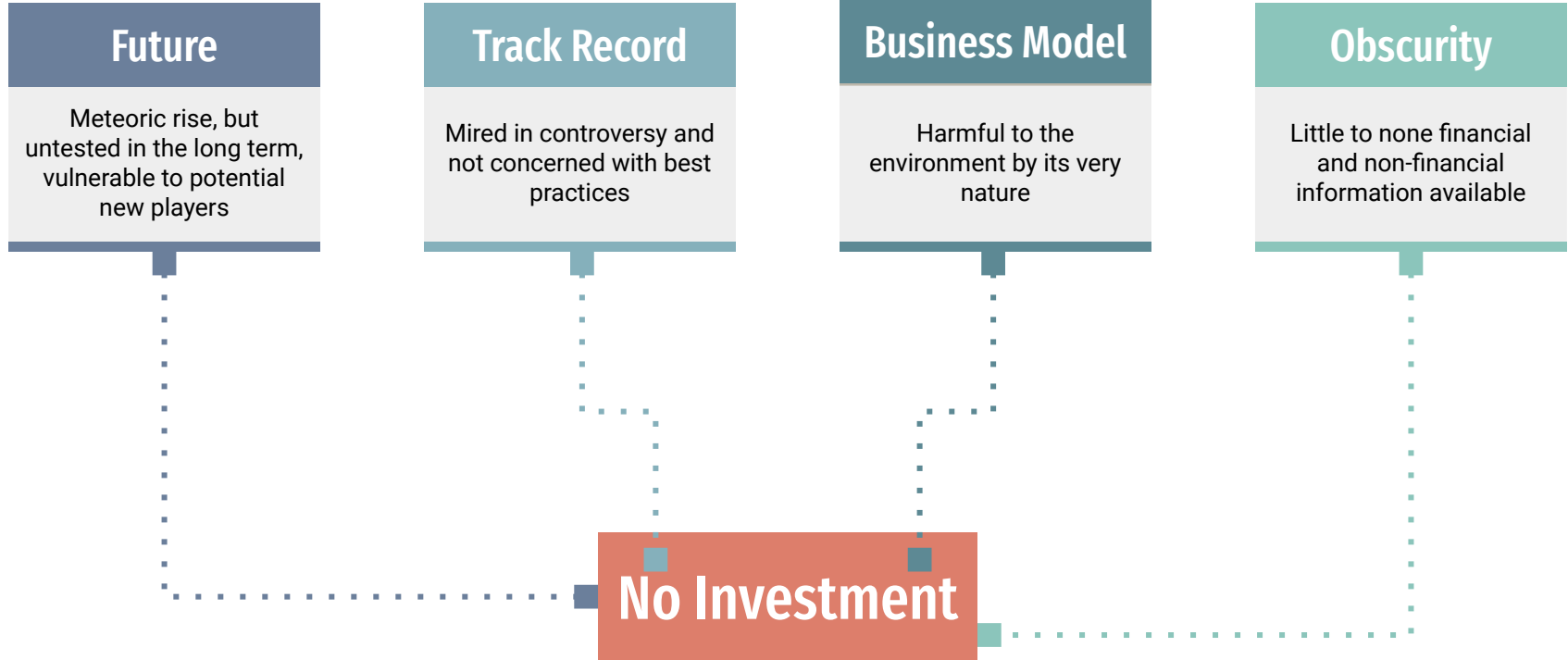
Metric	Calculation	Rational	Market Benchmark*	Desired Target
Net Debt to EBITDA	$\frac{\text{Net Debt}}{\text{EBITDA}}$	A proxy for leverage, showing how long it would take for a company to pay its outstanding debt.	3	< 3
Fixed Charge Coverage Ratio	$\frac{\text{EBIT} - \text{Fixed Charges before Tax}}{\text{Fixed Charges before Tax} + \text{Interest}}$	Measuring a firm's ability to cover its fixed charges	2	> 2

*Source: Corporate Finance Institute

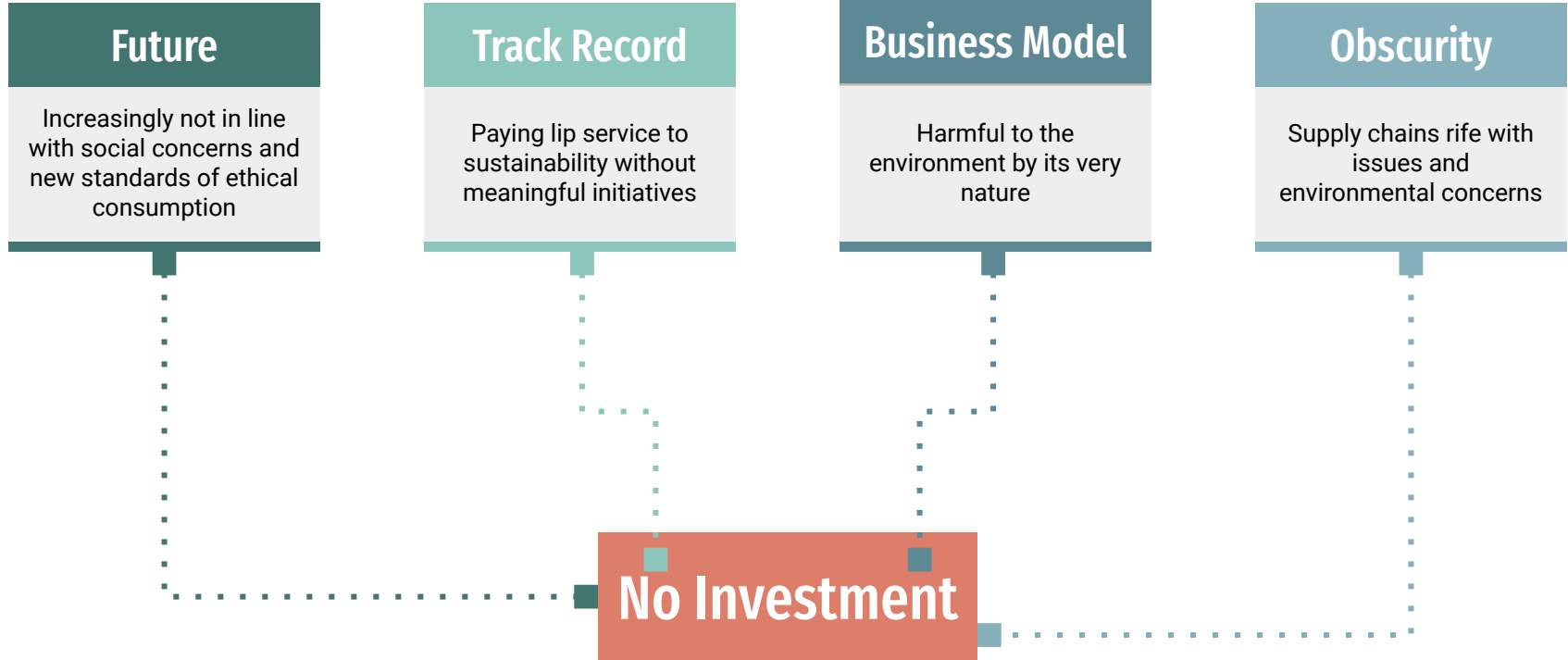
INVESTMENT DECISIONS



Shein



Fast Fashion



RECOMMENDATION



Sustainable and Slow Fashion

A

WHAT IS THIS?

Slow fashion aims to raise awareness and the practice of sustainability both in consumers and in the fashion industry.

B

ITS PREMISE

The Slow Movement creates durable and authentic products and experiences through the recovery of local productions and narratives in the sphere of cultural and personal memories.

C

CHANGE IN CONSUMPTION

A movement that seeks a re-territorialisation, re-localisation, and re-socialisation of the consumption of textile production, seeking solutions outside of mass consumption on a global scale.

D

HOW TO KNOW IF THE BRAND IS SUSTAINABLE

Rely on certifications and labels from organizations that inspect the production according to certain requirements; a direct contact with the manufacturer for more in-depth information;

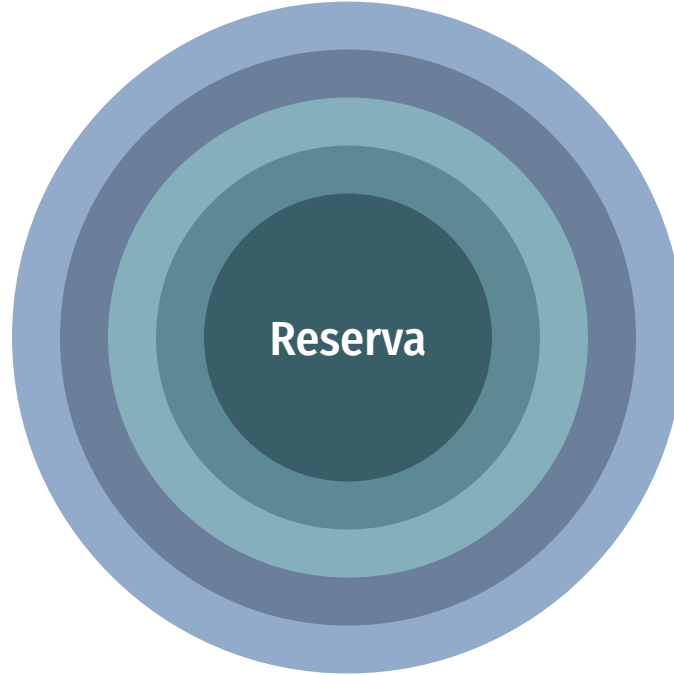
Investment Recommendation

Overview

- Rio de Janeiro brand founded in 2006
- 82 own stores and 40 franchises
- Sold in approximately 1,500 multi-brand stores
- R\$ 400 million revenue in 2019

B System

Reserva is the largest fashion brand in Latin America certified by B System, a global movement of companies that work towards a more inclusive and sustainable economy.



Social initiatives

1P=5P: for every piece sold at Reserva and Reserva Mini, the company enables the delivery of five plates of food to hungry people. More than 47 million plates have been donated since 2016. Pieces with prints linked to human rights: with 100% of the profit going to NGOs and social projects.

Environmental initiatives

Line of products in recycled cotton: use of scraps that are defibrillated and rewoven, giving rise to new pieces.
Made in Brazil: around 95% of the brand's production takes place in Brazil, as a way of stimulating the national industry.

THANK YOU!

APPENDIX

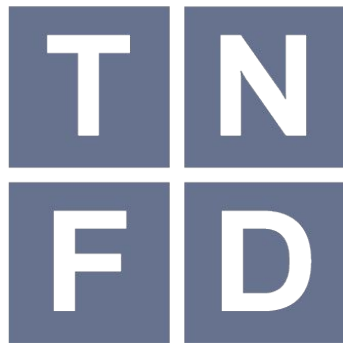


Climate and biodiversity assessment



Task Force on Climate-related Financial Disclosures

Established to develop recommendations for more effective climate-related disclosures to promote more informed investment, credit and insurance underwriting decisions. Also, to enable stakeholders to better understand concentrations of carbon-related assets in the financial sector, exposure of the sector and the financial system to climate-related risks and opportunities.



Task Force on Nature-related Financial Disclosures

Currently, financial institutions and companies do not have the information necessary to understand how nature impacts the organization's immediate financial performance, or the long-term financial risks that may arise from how the organization, positively or negatively, impacts nature. Better information will allow financial institutions and companies to incorporate nature-related risks and opportunities into their strategic planning.

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Context

Business Model

https://fourweekmba.com/shein-business-model/#SHEIN_Origin_Story

Fast Fashion Market Share

<https://yiqinfu.github.io/posts/shein/>

Growth against peers

<https://www.euromonitor.com/article/how-the-chinese-fast-fashion-brand-shein-is-conquering-the-us-market>

Shein's Market Strategy

<https://daxueconsulting.com/shein-market-strategy/>

Website Traffic

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Issues

Fashion Transparency Index

<https://www.fashionrevolution.org/about/transparency/>

Shein's False Statements

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Six Sins of Greenwashing

https://sustainability.usask.ca/documents/Six_Sins_of_Greenwashing_nov2007.pdf

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WWF

<https://fashionunited.uk/news/fashion/textile-industry-is-far-from-sustainable-states-wwf/2017101726337>

Clothing recycling

<https://www.worldwildlife.org/>

The Ugly Truth Of Fast Fashion | Patriot Act with Hasan Minhaj | Netflix

<https://www.youtube.com/watch?v=xGF3ObOBbac&t=296s>

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<https://www.fsb-tcfd.org/>

<https://tnfd.global/>

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Market Benchmarks and metrics

<https://corporatefinanceinstitute.com>

Pension Funds

<https://www.netspar.nl/publicatie/the-risk-appetite-pension-funds-the-case-canada/>

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