Reinforcing old fashion trends: how the digital market enhances the fast fashion industry

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STRUCTURED ABSTRACT

Digital markets are known the network effects that make them scale economies and the sunk costs obtained through massive data capture and the *lock-in* of consumers. Companies' strategies to ensure dominance on digital market ends up reinforcing the irregularities already existents in that position, which can be seen specially in the fashion industry. Due to the characteristics of the digital market, large fast-fashion retailers capture consumers and use it to reinforce pre-existing competition dominance.

Hence, the main scope of this work is to demonstrate, through deductive hypothetical method and how competitive dominance in digital markets influences competition on the fashion industry.

The findings of the present work are still in progress, but an initial analysis can evidence that this digital domain enhances the *ultra-fast* form of consumption in fashion chains and ends reinforcing illegal practices in the fashion market, which include exploitation of labor rights, environment, and copyrights.

This research used as a case study Shein, a company that through algorithmic profiling strategies and violation of intellectual property rights is dismantling the competition in digital fashion. Shein´s dark pattern is to present to consumers partial information, making them lean towards specific decisions – buying their products – without warning to the fabrication process of the products. In this scenario, taking care of the digital competitive environment has the consequence of protecting the industry's own competitive market.

Therefore, the present work will bring impacts to studies regarding the legal framework of fashion industry and its economic effects to consumers and competition, demonstrating the importance of this paper to consumers, fashion producers and law makers.

The originality of the work, therefore, lies precisely in the new perspective given to the competitive analysis of digital markets, ceasing to see them just as markets *per se*, and starting to see them as a capture method of fashion retailers. Furthermore, the recent phenomena of fast fashion in the fashion industry, such as the rise of the giant Shein, highlights the originality of the work, as the company has been reinforcing its - practically - market monopoly through digital dominance.

Keywords

Economic Law. Digital Market. Fashion Industry. Retail. Shein.

INTRODUCTION

There is no doubt about the inseparability of digital markets from society's day-to-day life. What once depended on travels can now be purchased with one click.

More than that, what was previously not considered to be sellable or available for purchase, such as data, is also sold – without time for the blink of an eye, just with the push of a button. That is also the reality of today's fashion industry.

Through digital platforms, fashion companies have gained even more space among consumers. Fast-fashions, specifically, are the ones that have benefited the most from this shift to the digital world, as they can take advantage of the facilities of digital to enhance the rate of theirs already accelerated production.

The issue is that digital markets have inherent characteristics that can be detrimental to competition, as they generate potential barriers to the entry of new agents in the market.

Therefore, the main objective of this work is to demonstrate how competitive dominance in digital markets can reinforce the competitive dominance of fast-fashion industries.

To this end, the effects associated with digital platforms and the effects associated with fast-fashion chains were analyzed.

The work adopted the hypothetical-deductive method, starting from a general hypothesis that there will be a propulsion to competitive problems in fast-fashion chains that use digital platforms, considering the network effects associated with the platforms.

To this end, the work used an exploratory approach, based on works that had already consolidated studies on the themes. To understand the competitive effects attributed to digital platforms, reports and studies from competition entities around the world were used, with a special focus on the findings of the Brazilian competition agency.

Then, we moved on to an analysis of the effects and production mechanisms of fast-fashions, and, finally, to address how, in practice, the characteristics of digital platforms are made effective in the fashion industry, a case study of the company Shein was made, with an analysis of the company's production method and business strategy.

The use of digital platforms to obtain competitive advantages in the market is palpable in the case of Shein, mainly because of an evident winner-takes-all effect, followed by tipping effects. The Chinese retailer has made use of a digital platform to capture consumers and, now, having established its monopoly, it imposes serious barriers to the entry of new players.

In summary, it was concluded that the case of Shein fulfills the purpose of showing how, in practice, the reinforcement of competitive trends of fast-fashion chains occurs through the effects of the characteristics of digital markets.

More than that, Shein's practices show a niche of action that prevents competition from almost all other agents in the market and, to this end, continues to propagate practices of violation of rights, further highlighting the need for regulation of digital markets, also thinking in more detail about the fashion industry.

DIGITAL MARKETPLACES

Discussions involving digital markets, or digital platforms, reach multiple levels and diverse biases. Within this new reality, consumers, market behaviors, data use and several other essential factors must be considered for the proper definition of the "rule of the game".

From a competitive perspective, the analysis of digital markets is usually accompanied by the analysis of their intrinsic characteristics, as these are the variables of market analysis conducted (Contri, 2022).

In addition, the constant evolution associated with digital markets and constant innovations make it almost impossible to determine a static pattern of analysis.

Still, it is important to understand, in a preliminary way, what is meant by digital markets.

In this sense, the Second Report of the Competition Authorities of the BRICS[1] Digital Economy Study Group defines digital markets as markets affected by the digitalization process, whose agents need digital services to sell or produce their products (BRICS, 2014).

The report also makes it clear that digitalization may involve existing businesses or create new types of businesses, but that it is commonly associated with disruptive effects on players that were already established in the market (BRICS, 2024).

The definition of the 2024 BRICS report, although it may seem too broad, leaves room for further discussions about what digital markets would be.

Before, sometimes the definition of digital platforms was associated practically exclusively with *big techs* (Amazon, Google, Apple, Microsoft and Meta). The Stigler Center report, for example, indicates that the definition of "digital platforms" still lacks a consistent definition, as distinct agents can be considered as a platform depending on the environment (Stigler Center, 2019). At the same time, the Stigler report is based on the analysis of *big techs* to define the impacts of these platforms on various aspects of daily life.

In Brazil, the definitions of the digital market began with Working Document No. 5/2020, prepared by the Administrative Council of Economic Defense (CADE), the Brazilian competition authority, based on the conclusions of several global working documents on digital platforms (Sakowski, Lancieri, 2020).

The study conducted by CADE was incisive in concluding that the global reports did not converge on a single definition of what digital platforms would be, but that, generally, they associate these multi-sided platforms, which "connect two or more groups of users and benefit from direct or indirect network effects"(Sakowski, Lancieri, 2020).

Precisely because they are multi-sided markets, digital platforms measure gains that are not limited to the price of the product or service sold, generating an unclear border and causing interdependence between agents (Sakowski, Lancieri, 2020). This confluence of factors, often found in other areas of the economy, makes digital markets present a unique economic structure (Sakowski, Lancieri, 2020)

Subsequently, CADE complemented the analysis of the digital markets by compiling the judgments on the subject and associated the digital platforms with a variety of data and network effects, with consideration that goes beyond the financial and may involve the aggregation of users and the acquisition of data (CADE, 2021).

Therefore, although there is no concrete definition of what digital platforms would be, the conclusions of the competition authorities so far make it possible to conclude that the characteristics of digital platforms – although not all – must be verified in order to define them as such and proceed to a competitive analysis.

Characteristics Associated with Digital Marketplaces

To understand the impacts of digital platforms on niche markets with pre-existing dominance, it is first necessary to understand the characteristics that define digital markets, based on the compilation already carried out by the Brazilian Antitrust Authority.

The characteristics are: existence as multi-sided markets; network effects; economies of scale and scope; low marginal cost; *multihoming*; the global nature of the agents and the use of data (CADE, 2021).

The question related to their existence as a two- or multiple – sided platform stems, as already mentioned, from the fact that these platforms mediate relationships between consumers and suppliers (Sakowski, Lancieri, 2020).

These are markets in which the interaction between users is designed to attract the two sides that are interconnected, charging them the appropriate consideration – which will not necessarily be the same – considering the different objectives of each group (Rochet, TIrole, 2006).

Within a platform, therefore, agents can benefit from the presence of several different users and, consequently, expand their performance, but on the other hand, a relationship of interdependence is established between the agents themselves, who start to depend on each other's assets to continue the established relationship (Renzetti, 2020). There is, therefore, a constant balancing act between the interests of the "sides" participating in the platform.

Precisely because there is an interdependence between agents, platforms begin to benefit from the increase in users, which generates network effects. In a more technical way, network effects would be the increase in utility of a platform with the increase in users (Renzetti, 2020).

[1] BRICS is an intergovernmental group originally created by Brazil, Russia, India, China and South Africa to promote economic cooperation among these countries. More can be known at: https://www.ipea.gov.br/forumbrics/en/learn-about-brics.html

Thus, network effects can be differentiated between direct and indirect effects, with the direct effects being the increase in platform utility with the increase of users in the same group (Contri, 2022), while indirect effects would be the benefits conferred to one group of users, when there is an increase in the number of other groups of agents (CADE, 2021).

In addition, the digital existence of these platforms means that there are almost no costs associated with them for aggregating more users. Therefore, the platform is able to offer services or products without financial consideration from the consumer, using different techniques, which may include offering the product at zero price, offering complementary products together (in a kind of tie-in sale) or charging only a part of the agents (Renzetti, 2022). The fact is that, unlike traditional markets, the digital market, for the most part, does not require consumers to spend money, but seeks other forms of consideration.

While a zero-cost market offers apparent advantages, it can also harm consumers by exploiting their cognitive vulnerabilities (Triebess et. Al., 2023). At this point, the product becomes the consumer itself by providing the necessary data so that the market agent can parameterize the preferences and conduct a targeting process aimed at that consumer, causing distortions in the decision-making process.

From the low cost associated with digital platforms, *multihoming* emerges, which consists of the user's ability to have access to alternative and simultaneous versions of the services provided (Fonseca Junior, 2022).

It can be seen that *multihoming* is directly linked to network effects: the greater the network effects – that is, the tractability of the platform – the lower consumer's *multihoming* will be – looking for other platforms.

This is because, while for a platform there are benefits of consumer loyalty, it would not be attractive for the consumer to use more than one platform simultaneously.

There is also the presence of an economy that is, at the same time, of scale and scope, as there is a reduction in cost with the expansion of the platform (scale) and a provision of integrated services to avoid consumer flight, increasing the scope for gaining competition (scope) (CADE, 2021).

The digital market brings together two important and potentially harmful competitive aspects: the provision of products on a large scale and the production of various complementary goods/services.

In other words, there is an attempt to win the market both by diversifying production and by productive capacity, which ends up driving other competitors away from the market.

Also, because they are global agents, their operations are not geographically restricted and are not limited by the physical barriers that typically restrict traditional markets (Fonseca Junior, 2022).

Hence, we can point out some problems: if the digital market system has no borders, how can it be properly regulated? How to hold the agent accountable for antitrust violations incurred? How to define the relevant market in which the economic agent operates?

Finally, the importance of data for digital platforms should be mentioned. CADE's working document makes special mention of this factor, pointing out that there is a convergence of antitrust authorities in concluding that control over data is essential to ensure that digital markets have market power (Sakowski, Lancieri, 2020).

This is the consideration demanded by the economic agents of the digital markets. What used to be collected in money is now collected through data collection to build a database that should be as large as possible for greater market control (Triebess et. Al., 2023).

It is important to mention the fact that, although the use of data is essential to digital platforms, this use is carried out differently in each case (Triebess et. Al., 2023).

Data capture can occur to build databases for search markets, to draw inferences about consumers, to impose a barrier to entry and restrict access to competitors, among other factors (European Commission, 2019).

Essentially, the data can be used to map consumer preferences, improve existing products, and enter untapped markets (European Commission, 2019).

In addition, it is important to highlight that the construction of a database of a digital platform makes it possible to build an understanding of the patterns of a larger group of the population, but also of individual dimensions of preference. (Stigler Center, 2019).

Having understood the distinctive characteristics of digital platforms, we now move on to an analysis of the competition problems associated with them.

Competition Issues Related to Digital Platforms

As we have seen, digital platforms are marked by specific characteristics that, when associated, give digital agents easier performance and market dominance. Precisely because of this, there is a trend towards market concentrations, market competition processes – *winner takes all* – and market competition processes – *tipping effect* (European Commission, 2019).

In a *winner-takes-all* competition, competition between platforms occurs, using network effects, to increase the number of users and, with that, enter the market (Contri, 2022).

It would be the first moment of competition, when players are still trying to define who will be able to enter the market and, for this, they make use of several attractions, which may include: the acquisition of potential competitors; the adoption of "most favored nation" clauses (a promise to the consumer that it will not offer lower prices than others); presentation of multiple services to avoid platform changes; and data control (European Commission, 2019).

That's why data is of such importance for anyone looking to enter a market. Not only can the information obtained from the data be used to map consumer preferences, but also as a mechanism to keep consumers within a platform.

The initial high competition for market entry is then replaced by market concentration, in the so-called "*tipping effect*". Once the entry of one of the agents into the market is consolidated, there is the presence of one – or a few – market dominants, who end up preventing the entry of new agents. (CADE, 2020).

From a consolidation in the market, the monopolist is able to enjoy the profits of the market through the rootedness obtained due to economies of scale and network effects (Contri, 2022).

This high market concentration ends up being an increase in barriers to entry and expansion of potential competitors, considering the excessive use of market power of the already consolidated agent (European Commission, 2019).

In other words, once the competition to enter the digital market is overcome, competition must still be faced to remain in the digital market, since the already consolidated platforms act as monopolists and make use of various mechanisms to undermine any new entrants that appear as a minimal threat to the established domain.

But not only are there several biases through which digital platforms should be observed, but their impact will also vary depending on the market they reach.

And here, the objective is not to call into question or invalidate the new studies involving digital platforms, but to elucidate a fact that, depending on the market, the impact of digital platforms on competition may be greater: digital platforms have characteristics that reinforce and amplify harmful characteristics of other typical markets.

Therefore, considering that the object of study of this article is *fast-fashion* chains, special focus should be given to online retail platforms, especially when they adopt the "marketplace" format.

According to a market analysis carried out by CADE, retailers in the marketplace model are already responsible for 78% of online commerce revenues in Brazil, with department stores emerging as the main sales segment (CADE, 2021). The concentration of the marketplace market escalated with the Covid-19 event, with revenues that practically doubled (from R$5.7 billion before Covid-19 to R$8.4 billion in the period after).

In order to carry out its competitive analysis within the retail market, CADE's judgments go in the direction of differentiating the size of the product, so that retail will be divided according to the type of product sold (CADE,, 2021).

And although there is a need for product specification when it comes to competitive analysis, it is evident that in any case, the presence and expression of marketplace platforms – or online retail – in Brazil is not negligible.

Because of this, the focus on *fast fashion* is also not a factor to be neglected, especially considering the relevance of the clothing industry in the national scenario.

FAST-FASHION CHAINS

Once the characteristics of digital markets have been understood, it is important to understand the aspects of *fast-fashion* networks in order to align the two market behaviors and understand how, in practice, there is an influence of digital brands on the way the *fast-fashion* market works.

And the understanding of *fast-fashion* chains is directly linked to the understanding of the way fashion is consumed today, which is directly related to a competitive consumer fever (Lipovetsky, 2009).

Fashion, as a reflection of the consumption patterns of the moment, follows and evolves according to society's behaviors and thoughts (Delgado, 2008).

But the change in the form of consumption emerged more drastically with the advent of globalization. Starting in the 1980s, major retailers and manufacturers began to gain the public and make fashion a global phenomenon (Frings, 2012).

With a decrease in borders, there were greater impulses to import inputs and products, which facilitated the increase in the speed of diffusion of fashion and the production of trends (Frings, 2012).

And although mass production by major retailers was already common at the time, the *fast-fashion* phenomenon has surpassed what was already known. In addition to mass retail, *fast-fashions* emerged as a form of "*quick-response*" to catwalk trends: you took what was being paraded and quickly reproduced it in large retailers.

Essentially, the emergence of *fast fashions* is a response to consumerist demands that demanded a form of production and distribution that would meet consumer opportunities.

In short, *fast-fashion* production is accelerated production, to meet the market expectations of consumers (Delgado, 2008), and in which production is sold more and more quickly. In short, it is the production in which consumption is treated as a priority in the production chain, so that new items, durable goods, but treated as disposable, are produced in the shortest possible time, using the lowest costs and aiming at the highest profits.

As mentioned, *fast fashion* emerged as a way for large retailers to adjust to consumer demands. But at the same time, as a market technique and form of production, it has adopted its own propulsion mechanisms, which include the deverticalization of production, the short circuit and the cheapening of production costs.

Based on the deverticalization strategies, large companies, aiming at cost reduction and production streamlining, carry out subcontracting, so that the production of products will be carried out by other companies, with the large retailer being responsible only for the sale (Rech, 2008).

The "*Fast fashion*" production method seeks, with deverticalization, a greater number of productions, with fewer inputs and costs (Teixeira, 2018). With the distribution of production, it is possible to expand the number of producers and produce more, centralizing the operation in a management company.

The relationships will consist, therefore, of products and because of this, they are based on price, without much attention to qualitative factors, in a contract that is based exclusively on supply (Cietta, 2010).

This justifies the fact that *fast fashion* is maintained through a "short circuit" system that advocates the cheapening of products.

If fashion productions were launched in a rhythm of seasons, in certain periods, with the speed of production made possible by fast-fashion, a constant cycle of launches began, hence why it is said that there is a short circuit (Toniol, Albieri, 2020).

More specifically, this rapid response circuit aims to make a wide range of products available to consumers, in quantities, varieties, qualities and at the right time and price, meeting the demands of the public in real time (Toniol, Albieri, 2020).

Essentially, *fast fashion* continues to cater to certain factors of the traditional industry, such as creativity and distribution, and ties to them the speed of industrial production (Cietta, 2010). This is what enables a quick response to consumer preferences, so that retailers end up having greater means of attracting the public's preference. (Bhardwaj, Fairhurst, 2010).

The success of *fast fashion* can be largely attributed to its ability to solve three focal problems of the fashion industry: the problem of the risk of unpredictability of demand, the management of the supply chain and the creative system (Cietta, 2010).

Competition Dominance

In general, the fashion industry would be a scenario of perfect competition, in which multiple players compete for prices and consumer preference, in a regime of low barriers to entry (Le, 2023).

But fast-fashion chains have, over time, developed mechanisms of market dominance that elevate them to an almost monopolistic position within the fashion industry.

Sometimes, this market dominance is achieved through the use of strategies that harm the environment, social rights and competition.

The problem they generate is already a warning to the world's competition authorities. In fact, the European Union is already studying the regulation of the operation of fast-fashion chains, to reduce pollution and environmental problems arising from the production of textiles (Segal, 2024).

However, it must be understood that although fast-fashions can, at first, take space from traditional brands, on the other hand, the emergence of multiple fast-fashion chains has made it necessary to expand the scope of analysis and define a relevant market of activity specific to these companies.

Therefore, although fast-fashions are a threat to economic agents in the fashion industry that aim to enter the mass retail market, this threat does not stem from the position of direct competitor, but from the attractions of the production system that make consumers choose *fast-fashion brands*.

It is no longer a question of two competitors competing for the same market, but of an agent – usually transnational – using market techniques – often unfair – to obtain the consumer public.

Established there, this economic agent no longer has direct competitors, because it offers the consumer prices far below those offered by other agents in the same field, and at an extremely higher speed.

Until other similar networks enter the runway. With the entry of competitors with the same capacities, the same products, production speeds and the ability to attract consumers, there is a much greater competition problem.

It is the change from the ideal state of competition to an almost oligopolistic competition regime, since fast-fashions become, in a small group of dominant companies, to mark products and prices in the market.

In other words, what starts as a competitive problem due to the barriers imposed by one dominant agent (fast-fashions) to another (other competitors), is quickly replaced by a competitive problem between economic agents of the same niche, performance and market tactics (fast-fashion chains).

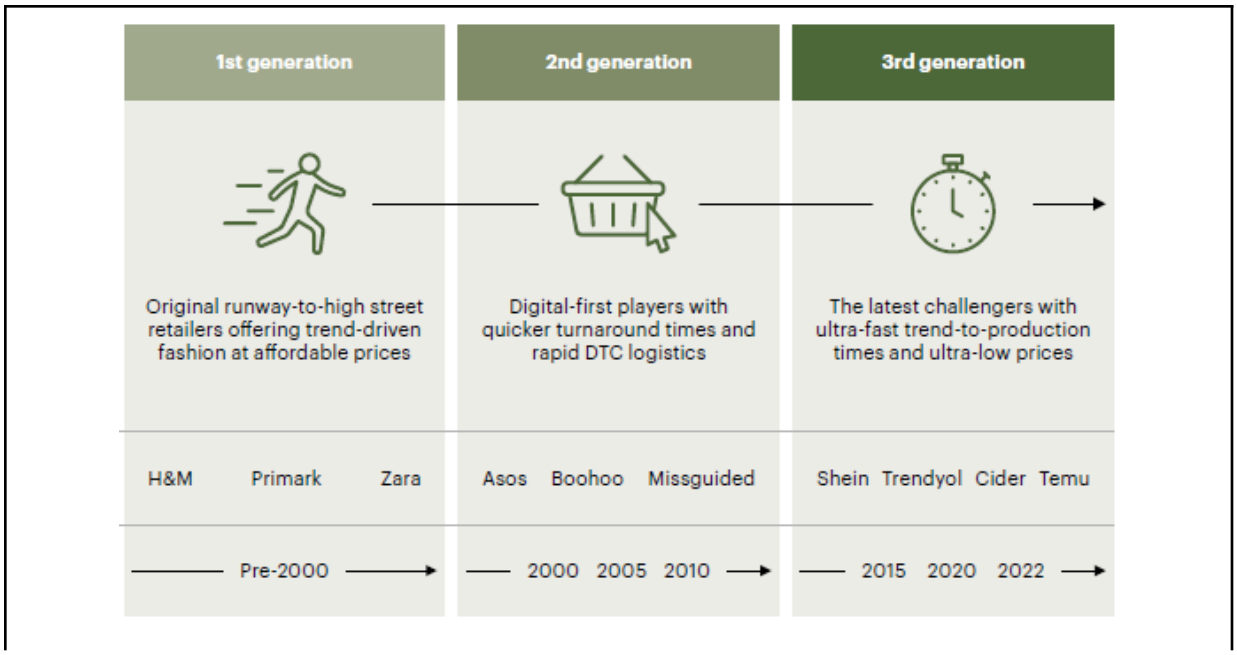
This competition between fast-fashions is evident when one considers that one can already speak of different levels of fast-fashion.

In an analysis conducted by the McKinsey & Company Institute in 2024, it was concluded that it is possible to speak of three specific generations of *fast fashion*.

The first would be made up of retailers traditionally associated with fast fashion, such as H&M, Primark and Zara, and the main feature would be the offer of affordable products. The second generation would be marked by retailers with shorter supply times, such as Asos.

Already, the third generation would be made up of ultra-fast retailers that provide real-time clothing at extremely low prices, such as Shein.

Figure 01. Fast-fashion comparision table from McKinsey & Company



It is this latest generation of *fast fashions* that has been driving other clothing brands out of the market and undermining competition.

There is a sudden change in the relevant market: if before it was possible to talk about a generic relevant fashion market, today, there is the need to talk about a relevant market of fast-fashion chains.

There are, therefore, two competition problems, one of them being within the relevant fast-fashion market and the other within the broader relevant clothing retail market. The competition problems associated with *fast fashion* are essentially the same as those associated with digital markets: initial competition for the market and then competition within the market.

The fact that fast-fashion's market dominance has been achieved through extreme consumption practices is, in itself, harmful. However, the competitive impacts are even more profound when the characteristics of fast-fashion chains are combined with the characteristics of digital platforms, as is the case with the latest generation of fast-fashions and, especially, as is the case with Shein.

Precisely because of this, it is important to understand, through the analysis of a concrete case, how the performance of *fast fashions* on digital platforms has been, as well as its impacts on the market.

THE CASE OF SHEIN

Among today's fast-fashion companies, Shein emerges as one of the main ones, not only because of the sales volume and market gain, but because it went beyond the "traditional" fast-fashions, by establishing a new business model: ultra-fast-fashion.

Officially incorporated in 2008, Shein reached greater levels of success with the pandemic and its business model almost entirely online, with the use of artificial intelligence algorithms (McKinsey & Company, 2024).

The growth of the ultra-fast giant is no small feat: in an empirical research conducted by Uchańska-Bieniusiewicz and Obłój (2023), it was found that Shein managed to capture the fast-fashion market in the United States in just two years, with a 568% increase in its sales levels. In Brazil, Shein had a turnover of BRL 10 billion in 2023 and grew 42.8% from 2022 to 2023, with an even greater growth forecast for 2024 (Poder360, 2024).

But after all, what is the reason for the success of the fashion giant?

Little is known about the Chinese retailer – as there is little information about how the company works – but much of its success comes from its ability to transform fashion into real-time fashion, producing clothes in a period of three to five days (Bunster et. Al., 2021).

In 2019, Shein produced 150,000 new models of clothing, while in 2020, there were 2,000 models per day, in the women's products section alone (Bunster et. Al., 2021). Currently, the company is able to advertise between 2,000 to 10,000 new items per day on its app (McKinsey & Company, 2024).

Currently, Shein is the second most used shopping app in the world, behind only Amazon (Bunster et. Al., 2021) and was valued at US$ 100 billion in 2022, a value much higher than the combined valuation of Zara and H&M, the main fast-fashion chains until then (The Guardian, 2022).

The ultra-fast model differs from the fast-fashion model mainly in the issue related to the possibility of better meeting demand needs, since it has an exclusively virtual presence and on an e-commerce platform with vertical integration (Uchańska-Bieniusiewicz, Obłój, 2023).

There is an intentional reduction in the production time of the products and a consequent increase in the creation of new parts (Marassi, Trindade, 2024).

It is, basically, a deepening of the fast-fashion model, through the use of artificial intelligence and operational efficiency resulting from its supply.

Specific Production Mechanisms

Within the logic of an ultra-fast model, Shein makes use of specific mechanisms within its business chain that ensure its success. Among them: the use of artificial intelligence, its own e-commerce platform and its production line.

Within Shein's market structuring, artificial intelligence applications are used to enable accurate knowledge of the behavior of your market (Marassi, Trindade, 2024).

That is, using a tool, usually Google Trends Finder, the company can evaluate the consumption preference of a specific country and return the production of the item to the consumer public of that country (Bunster et. Al., 2020).

The possibility of predicting trends by specific market makes the retailer's marketing targeting broader, without restrictions to a certain audience.

Another important factor, although related a little more distantly to the use of artificial intelligence, is precisely the dissemination of the Chinese retailer's marketing, which focuses on promoting its products on social networks, such as Instagram and TikTok, through campaigns with influencers and with dissemination by the customers themselves (McKinsey & Company, 2024).

Shein also has its own e-commerce platform that, with the help of artificial intelligence mechanisms, maps consumer preferences and from them, brings purchase stimuli that materialize in alerts of discounts on similar pieces, promotion messages, points collection system, among others (Li, 2021).

On the other hand, with regard to the conduction of the production line, Shein makes use of a structure characteristic of ultra-fast: speed in manufacturing due to the pulverization of the product supply poles and speed of creation due to the absence of designers (Uchańska-Bieniusiewicz, Obłój, 2023).

To account for the speed of production, the mapping of trends and preferences by artificial intelligence is essential, since while one supplier can produce the trend in one market, another supplier carries out the production of another trend.

But in addition to focusing on the mass production of inputs, the items sold by Shein have their originality highly questionable. The fact is that the products marketed are, for the most part, copies of products marketed by other brands, including other fast-fashions and small businesses (Plé, Yacoub, 2024).

Therefore, there is a significant reduction in production time, since it starts from ready-made designs to mass production.

Otherwise, there is little official information about Shein's production chain. The independent investigations carried out so far expose a series of violations of labor rights, human and environmental conditions.

The documentary "Inside the Shein Machine: Untold", produced by Channel 4, was one of the most detailed productions about the Shein method of production. In recordings made inside Shein factories, workers were found working 18-hour shifts and paying 4 cents per piece produced (Chanel 4, 2022).

This is just one of several investigations that have highlighted the violations perpetrated by Shein, but which are denied and concealed by the company.

In fact, the Brazilian Fashion Transparency Index, prepared by the organization Fashion Revolution, listed Shein as one of the companies with the lowest levels of transparency in the disclosure of human rights and environmental policies and procedures (Fashion Revolution Brazil, 2023).

All these factors combined make Shein today, the leading fast-fashion chain.

Competitive Advantages and Competition Problems

Once you understand how the Chinese retailer works, it's easy to understand the competition problems that emerge from it.

First, it is important to mention that innovation was, in fact, a competitive differentiating factor for Shein, as the innovation represented by the exclusively online business model and use of digital systems allowed market dominance (Uchańska-Bieniusiewicz, Obłój, 2023).

The use of cutting-edge technologies, such as artificial intelligence mechanisms, allows Shein to continue producing products that are profitable and cost-effective.

But at the same time, the programmed and targeted use of Shein's digital platform has caused the company to take advantage of the problematic advantages associated with digital platforms to gain competitive advantages.

The use of data and user profiling, for example, enables a production direction that few companies have, so much so that not even traditional fast-fashions can compete with Shein.

In addition, it is important to note that Shein sells items at predatory prices and far below the affordable prices already practiced by other fast-fashions.

Prices far below the market no longer include in their cost, for example, expenses with intellectual property rights and designers, considering the practices of copying and replicating that are common to the Chinese retailer.

In addition, expenses with the environment and compliance with labor rights are also excluded from this cost.

Shein's unusual practices to gain market dominance are seen in practice by its competitors. In 2023, another of the up-and-coming ultra-fast retailers, China's Temu, sued Shein in the United States, alleging violation of Section 2 of the Sherman Act[2], the US antitrust law (Whaleco Inc v. Shein Technology, 2023).

According to Temu's arguments, Shein would be abusing intellectual property protections and threatening suppliers to no longer associate themselves with the competitor's productions, as a way to continue ensuring its market dominance.

Temu alleged that Shein has initiated a "sham litigation" process against suppliers that manufacture Temu products, under false allegations of intellectual property infringement, totaling more than 30,000 false reports.

This was not Temu's first lawsuit against Shein, before, the competing company had already filed a lawsuit against Shein on account of exclusivity contracts that Shein established with manufacturers.

Other complaints from Temu include the imposition of base prices on suppliers and the use of Chinese government assistance to ensure that suppliers remain associated with Shein.

The case is still pending, but it shows, in practice, how competitive effects associated with digital platforms manifest themselves: Shein's competition to enter a *winner-takes-all* market led to its market dominance, in a *tipping effect*.

CONCLUSION

Digital platforms have, in their constitution, characteristics that can lead to competitive losses due to the easy power of market domination. Precisely for this reason, there is currently an attempt to regulate digital markets and mitigate the effects associated with them.

The point is that the characteristics of digital platforms, when associated with a market with pre-existing competition problems, aggravate the competitive problems of a market, such as fast-fashions and, more specifically, Shein.

[2] The Sherman Act is the Antitrust legislation in the United States. Section 2 of the Sherman Act provides for market monopoly practices and provides for the criminalization of monopoly. Available at: www.govinfo.gov

While "traditional" fast-fashions have achieved market dominance by producing collections at a low cost and with a shorter launch time than traditional fashion brands, Shein, being exclusively a digital platform, is able to further reduce production costs – in the perfect translation of what would be the marginal costs of digital platforms.

In addition, its global nature, with a presence in all countries, gives it a market without limits, and, therefore, unlimited use of data in order to deepen preference prediction mechanisms.

Therefore, while there is a reduction in costs with the expansion of the platform, there is an availability of integrated services to prevent the consumer from escaping from the platform, which involves a marketing strategy offering promotions and other benefits.

After consolidating its entry into the fast-fashion market – including the creation of a new generation of these companies – new players are unable to enter the market and Shein can enjoy a monopoly due to economies of scale and network effects.

The current experience of competitor Temu shows that there are high barriers to entry for potential competitors, considering that Shein uses its excessive market power as an already consolidated agent to prevent the entry of other players (entering into exclusivity agreements, benefiting from government positions, among others).

In practice, the monopoly exercised by Shein proves that digital platforms reinforce the dominance already associated with fast-fashions and generate monopolists in typically oligopoly markets.

But because of the violations typically associated with fast-fashions and, in this case, considering the violations associated with Shein, the regulation of digital platforms, especially with regard to the effects associated with them, is necessary.

Such effects have been used by large retailers, such as Shein, to purposely enter markets and then maintain their dominance by setting barriers to entry for new competitors.

Essentially, a market previously marked by the dominance of a group is now dominated by only one agent, which continues to perpetrate practices that are harmful to competition and uses the new mechanisms available – digital platforms – to do so.

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