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# Table of Contents

Executive Summary .................................................................................................................. 2
History and Overview of Uniqlo ............................................................................................. 2
Challenges and Solutions: A Process of Incremental Innovation ........................................ 3
  - Products: Differentiating a Common Product in an Uncommon World ......................... 3
  - Technology ....................................................................................................................... 3
  - Low Cost ........................................................................................................................ 3
  - Process: Producing and Servicing a Globally Expanding Clothing Brand ..................... 4
    - Production Process ....................................................................................................... 4
  - Market Entry: How to Enter the US Market? ................................................................... 5
Goals and Future Challenges: How will Uniqlo Adapt? .......................................................... 6
  - Company Goals .............................................................................................................. 6
  - Future Challenges .......................................................................................................... 6
    - The “Wow Factor” ......................................................................................................... 6
    - One Size Fits All? ......................................................................................................... 7
    - Fashionable or Not? ...................................................................................................... 7
What Will the Future Bring? .................................................................................................... 8
Exhibits ................................................................................................................................... 9
  - Exhibit 1: Uniqlo Model ................................................................................................ 9
  - Exhibit 2: Uniqlo’s Quality and Safety Control System .................................................. 9
Appendix .................................................................................................................................. 10
  - Appendix 1: Sales of Major Global SPA Firms ............................................................... 10
  - Appendix 2: Number of Uniqlo Stores ......................................................................... 10
  - Appendix 3: Uniqlo 5-Year Financial Results ............................................................... 11
  - Appendix 4: Advertising Materials .............................................................................. 11
    - Ultra-Light Down Advertising Material ..................................................................... 11
    - HEATTECH Advertising Material ............................................................................. 12
    - LifeWear Advertising Material .................................................................................. 14
  - Appendix 5: Store Designs ............................................................................................ 14
    - Uniqlo Store in Ginza District Tokyo ........................................................................ 14
    - Uniqlo Store on Fifth Avenue, New York City .......................................................... 15
Executive Summary

Uniqlo has made a huge impact on the inexpensive clothing market in Japan and around the world since it was founded. The company started in 1984 with one store and now dominates the Japanese market with 852 stores. It has done this through a combination of product differentiation and technological innovation that has put it ahead of its competitors.

Uniqlo opened its first store in the US in 2005, and after some initial failures, innovated its operations to adapt to the US market. However, today, nine years later, Uniqlo struggles to maintain its “wow factor” and distinguish itself in the North American system. Will the company continue to innovate in both clothing design and business operations to stay competitive and reach its goals? Or are its aspirations to be seen as a lifestyle-changing technology company vastly overblown and destined to lead Uniqlo to obsolescence while more style-conscious clothing companies go on to dominate the market?

History and Overview of Uniqlo

Tadashi Yanai, founder and CEO of Uniqlo, grew up in the retail clothing industry. He was born in 1949 to a suit shop owner in Yamaguchi, Japan, and eventually became the president of his father’s chain of 22 stores in 1984. When he took over the presidency, he opened a store “Unique Clothing Warehouse,” which was later shortened to "Uniqlo," in Hiroshima. At its start Uniqlo was a typical multi-brand shop carrying Nike, Adidas, and other foreign brands. “The Great Recession” of Japan in the 90s provided Uniqlo with a great opportunity to grow rapidly. Uniqlo products quickly gained popularity among price-conscious Japanese customers and by 1998 Uniqlo had expanded to 300 stores across Japan.¹

Uniqlo has achieved great success in East Asia, and is currently the largest retailer in Asia. Uniqlo’s success puts its parent company, Fast Retailing, as the fourth-largest retailer behind Inditex (Zara’s parent company), H&M, and Gap.² As of 2014, Uniqlo had 852 locations in Japan and 633 stores worldwide.³ Additionally, as of 2014 Uniqlo Japan’s net sales reached $6.9 billion USD and $1 billion USD operating income. At the same time, Uniqlo International reported $4.0 billion USD in net sales and $0.3 billion USD operating income. Approximately 50% of net sales of Uniqlo International come from Greater China and 15% from South Korea.⁴

However, outside of Asia, Uniqlo has struggled. In 2001, Uniqlo opened its first store overseas in London, and over the next several years, expanded to 21 stores in the United Kingdom. In addition to the UK, Uniqlo opened three stores in New Jersey in 2005. These stores were shut down by 2006, forcing Uniqlo to re-think its strategy in Western markets.

In the US today, Uniqlo has expanded significantly. Thanks to innovations in its strategy, the company now has 26 stores on the East Coast of the US and 14 stores on the West. It has built a strong brand identity in the US through the style of the stores and the quality of the clothing. The management team is driving forward with the view that there is no difference in customers whether they live in Manhattan or

⁴ Ibid 3.
Milwaukee. These customers all want high quality, low-cost clothing in a store that makes them feel different when they walk in. In many ways Yanai feels like he is following in the footsteps of Steve Jobs as he built Apple into the brand that it is today through constant innovation and making their customers feel like they were buying a lifestyle and not just clothing.

Challenges and Solutions: A Process of Incremental Innovation

Products: Differentiating a Common Product in an Uncommon World

Uniqlo’s value proposal, reflected in the company’s motto, “Made for all,” is to offer high quality products at affordable prices for a vast target customer base. Its management structure as well as its cost control and production processes aim to maintain the company’s competitive advantage while driving towards this goal. Uniqlo has focused on making it’s clothing unique to the customer through both technology and cost.

Technology

Yanai has repeatedly stated that his company is “not a fashion company, but instead a technology company.” It seeks to bring innovation into clothing manufacture and design, creating unique clothing lines to meet customer needs in new ways.

Three product innovations are unique to Uniqlo. The first is the HEATTECH line, which includes inner wear, leggings, tights, and jeans. Specially curated hollow fibers trap air inside the clothing and create additional warmth by absorbing moisture and directing it away from the body. For the women’s line milk protein is added to the fabric to create a soft, supple feel. Uniqlo claims that these fabrics provide warmth in cool temperatures 100 times more than regular cotton. The second flagship product is the AIRism line, which consists of mostly undergarments. It is designed to keep the body cool in warm temperatures by absorbing and then releasing moisture to keep the clothing dry. Uniqlo uses an advanced fabric called “Cupro” for this line. The third innovative product is dry stretch pants that serve the same purpose of drying perspiration as the AIRism line.

Uniqlo developed these products to set their clothing apart from their competitors through technology instead of just fashion. By doing this, Uniqlo is becoming more competitive through innovation.

Low Cost

Uniqlo believes that quality and price are the driving forces behind customer choice. Therefore, the company has developed a strategy that prioritizes those factors over closely following and adopting the

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6 Ibid 5.
10 Ibid 8.
11 Ibid 8.
latest trends in fashion. It is the first company in Japan to adopt a SPA (Specialty store retailer of Private label Apparel) model, in which the company controls all stages including pre- and post-production (Exhibit 1). This model ensures cost-saving and flexible production structures since the central management decides all product planning, design, manufacturing, and distribution.

The SPA model also enables them to scale up easily because all processes are under the control of the company's management. The company prefers to control all the above-mentioned steps rather than delegating to the third party partners in cheaper manufacturing locations. In line with this understanding, they established a long-term partnership-like relationship with the vendors and closely oversee all parts of the manufacturing process. This model allows them to maintain high quality products with lower prices, further differentiating Uniqlo from its competitors.

Process: Producing and Servicing a Globally Expanding Clothing Brand

As mentioned above, Uniqlo prioritizes function and durability in its products rather than fashionable designs. Uniqlo’s dedication to innovation extends beyond product design and into the business cycle. The company’s production structure aims to reduce costs in all components of its supply chain.

Production Process

Within Uniqlo’s production process it has reduced costs substantially in three major ways: Research & Design, production and quality control, and inventory control.

First, the Research & Design teams research consumer trends around the world and hold regular meetings with merchandising, marketing, materials development, and production teams to shortlist considerations for designs and materials. Soon after, new designs are created as early as one year before the expected product launch. These long lead times give Uniqlo the ability to source materials cheaply and manufacture their products in a cost-efficient manner.

Second, Uniqlo chooses to produce a small variety of products in large quantities. Since designs are planned in advance, Uniqlo places large orders to vendors in order to get lower per unit costs. Large-volume orders empower Uniqlo’s buying power vis-à-vis its vendors. It also ensures quality control at lower costs since the product lines are limited.

Uniqlo’s Takumi team (a team of expert engineers tasked with offering technical support to Uniqlo’s 70 contract manufacturing companies) partners with vendors in order to pass on best practices of efficient processes and quality production. These teams also aim to push for faster responsiveness to operational problems, and to make sure that contracted producers maintain quality standards in its technological clothing lines along with assuring the quality standards were being met during all production activities (Exhibit 2).

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12 The SPA (Specialty store retailer of Private label Apparel) business model incorporates the entire clothes-making process from procurement of materials, product planning, development and manufacture through distribution and retail to inventory management.
To address the potential problem of responsiveness to customer demands, Uniqlo decided to establish production hubs in a close proximity of their target markets. These production hubs were established in Turkey, India, China, the Americas, and Southeast Asia.\(^{16}\) In line with this strategy, Takumi teams have been deployed to offices in Shanghai, Ho Chi Minh City, Dhaka, Jakarta, and Istanbul.\(^{17}\)

Third, Uniqlo’s marketing team collaborates with the centralized Inventory Control Department to reduce inventory costs of storage and ensure inventory sells out. These teams track sales in stores in order to increase or decrease the production of specific clothing lines based on immediate customer demand, thereby minimizing storage costs. Additionally, these two teams collaborate on finalizing markdown prices in order to ensure that the existing inventory is sold.

**Market Entry: How to Enter the US Market?**

By 2005, Uniqlo’s products had taken over Japan and made a stir in other parts of the world. They were cheap, high quality, and came with a distinct Japanese flavor that other companies were not in a position to copy. The problem for Uniqlo and its “amerophile” CEO was that the company hadn’t entered the biggest apparel market in the world: the United States.\(^{18}\) In 2005, Uniqlo took the plunge and opened three small stores in New Jersey shopping malls.\(^{19}\) The stores failed almost immediately. But why would products that had been sold in Japan to much fanfare fail so miserably in the American market? US CEO Shin Odake said it best: “No one knew who we were...You can't succeed as a casual clothing store when you have no brand recognition; you're in a small, ordinary space with less than 10,000 square feet. People need a reason to get excited about you.”\(^{20}\) Uniqlo management decided that they needed to differentiate their offering in the United States, or risk failing again as they tried to enter the market.

Uniqlo’s management team went back to the drawing board and, one year after their failure in New Jersey, they sprang back on the US scene with a huge, 36,000 square foot store in the fashion district of the Soho neighborhood in lower Manhattan.\(^{21}\) The company followed the Soho store with two even larger stores in Manhattan: a 64,000 square foot store on 34th Street and a flagship, 89,000 square foot store alongside the American and international apparel powerhouses on Fifth Avenue.\(^{22}\) These massive stores were part of a concerted strategy developed by the Uniqlo management team to create brand awareness among the fashion conscious shoppers in New York City and beyond. They wanted to differentiate their product, which was somewhat standard clothing, and make it stand out in the eyes of American consumers. "Flagship stores on high-profile streets are extremely important to the brand outside of Japan,” said Odake. “They make a statement. They spur word of mouth. We can attract higher-level talent.”\(^{23}\)

This brand awareness push has been successful. Uniqlo has been able to expand to 40 stores in the US and is planning additional expansions in the future.

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\(^{18}\) Ibid 1.

\(^{19}\) Ibid 5.

\(^{20}\) Ibid 5.

\(^{21}\) Ibid 5.

\(^{22}\) Ibid 5.

\(^{23}\) Ibid 5.
Goals and Future Challenges: How will Uniqlo Adapt?

Company Goals

Uniqlo’s recent success in the US market, though a solid start, is only one step on the way to its goal of being the number one apparel company in the world by 2020. Uniqlo executives believe that the US is critical in reaching this goal, and that they must be number one in the US market to become global number one. In pursuit of this, the company has set the benchmark of reaching a market share of $10 billion USD in the United States and $50 billion USD worldwide by 2020.

Future Challenges

While the company’s success and expansion, based on its unique business model and its initiatives to create a distinctive brand name, has been overwhelming, Uniqlo still faces important challenges as it aims to achieve its 2020 goal. The company’s performance in the North America market, and especially in the US market, is crucial to its success. And it is specifically this market that accentuates the most important challenges Uniqlo has to deal with.

The “Wow Factor”

When the company re-entered the US in 2006, after the initial failed attempt in the New Jersey malls, it created awareness for its brand by exhibiting the qualities and technologically advanced features of its products to potential customers. The combination of groundbreaking apparel technology, affordable prices, and a distinguishable customer experience – the “wow factor” – led to strong growth and an expanding customer base.24 However, the company has reported diminishing returns over the years since the establishment of its US operations,25 an outcome that can be partly attributed to the fading of the strong impression its products made when they first appeared on US shelves.

As Uniqlo’s products shift in customer perception from niche to mainstream, the shine wears off and customer apathy begins to set in. This poses a serious challenge for Uniqlo, as its products’ quality, initially considered revolutionary, is now treated as a staple. The company still launches new product lines with novel features and technological advancements, such as LifeWear, a blend between casual and sportswear,26 however, the consumer base perceives these new lines more as upgrades, rather than game-changing apparel that upsets the status quo and alters people’s clothing habits.27

Regarding upgrades versus innovations, consumers appear to be right: Uniqlo uses advanced techniques to produce its fabrics and clothes, and adds new features to its apparel in a rather incremental way, making it difficult for the company to launch a totally radical new product. This approach is partly enforced by its business model. Being a clothing company that focuses on technical characteristics and comfort, rather than fashion, it relies on new technology to drive new sales, rather the continually changing fashion trends. Uniqlo cannot afford to stagnate on the technological innovation front, especially because that is the venue through which it has chosen to distinguish itself from its competitors. Today, its more fashion-conscious competitors have adopted some of the technological innovations that

24 Ibid 1.
27 Ibid 25.
originally differentiated Uniqlo clothes, making it necessary for Uniqlo to continue to innovate if it wants to stay ahead of the industry’s technology game.

One Size Fits All?

With 1,491 stores in East and Southeast Asia, compared to four in Australia, 24 in Europe and 39 in North America, it is only natural that any apparel produced by the company is made based on prototypes of East Asian bodies. While Uniqlo takes pride in its ability to create clothes for all ages and both sexes, it has not adequately tailored its sizing for a wide variety of consumers with different body types in non-Asian markets.

Size and fit are one of the major challenges Uniqlo faces today in North America. American customers find Uniqlo clothes that fit in girth to be uncomonally large in length or vice versa. The fact that Uniqlo products are completely standardized and made using highly sophisticated fabrics and production techniques makes it difficult to adjust sizing for each market.

As a company intent on reaching the greatest possible portion of consumers and aiming at creating a large revenue base in North America, Uniqlo seems to be neglecting a critical factor that might be lowering its products’ appeal to large population segments. The problem might not have been evident while the company was making a name for itself, merely because the number of new customers was growing relative to the number of non-returning customers disappointed by ill-fitting clothes. In order to establish a long-term profitable presence, however, Uniqlo will have to focus on creating products that cover the particular needs of local consumers.

Fashionable or Not?

Instead of producing clothes that reflect the latest fashion trends, Uniqlo focuses on bringing the latest technological innovations to everyday clothing for all ages and types of people. This is reflected in its business model, with apparel stock being designed well in advance and remaining constant throughout each season, and by the fact that its products are targeting a large audience, transcending barriers of taste and style and aiming for superior functionality.

In the fashion industry, however, toning down fashion can have detrimental effects. The company has launched lines with the signatures of famous designers, but in all respects has remained faithful to its philosophy of giving priority to functionality and innovation versus style and fashion. The fact that Uniqlo defines Apple as its direct competitor, rather than companies in mass fashion retailing, like H&M or Zara, speaks volumes about its self-perception. It also reveals that Uniqlo might be misinterpreting Apple’s role in the consumer electronics industry. In contrast to Uniqlo, Apple is a trendsetter, not only in functionality, but also in style. Indeed, Apple’s products are generally prized for their advanced, elegant design, especially in comparison with equivalent competitors’ products, in an industry where technology, functionality and services play a decisive role. Uniqlo, on the other hand, while not neglecting fashion altogether, creates products with a more generic style, and relies on functionality and technology for high sales.

30 Ibid 1.
31 Ibid 1.
What Uniqlo chooses to downplay is the force of style in its customers’ personal statements, or their desire to conform to social and cultural standards. Consumers buy clothes making choices that reflect their personal cultural and social values. Mainstream generic apparel with commendable qualities can serve a range of clothing needs, especially for those opting for more affordable products. It cannot provide the level of styling sophistication and uniqueness that a big portion of the public seeks in at least part of its wardrobe – the feature that has driven apparel evolution since antiquity. Given that profit margins are small for the type of clothing Uniqlo sells, fabric and production technology becomes easily accessible over time to competitors, and infrequent alteration of styles and trends in available stock deters customers for returning quickly for new purchases, Uniqlo may find itself needing to look for more sources of revenue sooner rather than later.

**What Will the Future Bring?**

While Uniqlo has been extraordinarily successful so far, it faces significant future challenges to reaching its overall company goals. The management team may be considering a variety of options to address these challenges. Should Uniqlo abandon its “one-size fits all model” to deal with the differences in Western markets? Should they focus more on fashion when designing new clothing or stick with the minimalist designs that have been extremely popular? How can they make a bigger splash in the market using their technological advantage? Answers to these questions will help drive Uniqlo’s corporate and innovation strategy into the future.
Exhibits

Exhibit 1: Uniqlo Model

Exhibit 2: Uniqlo’s Quality and Safety Control System
Appendix

Appendix 1: Sales of Major Global SPA Firms

![Chart showing sales of major global SPA firms]

Note: Compiled using data from the annual reports converted at August 31, 2014 exchange rates.

Appendix 2: Number of Uniqlo Stores

<table>
<thead>
<tr>
<th>Number of Stores by Business Segment</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNIQLO Japan</td>
<td>852</td>
<td>945</td>
</tr>
<tr>
<td>Directly operated</td>
<td>631</td>
<td>644</td>
</tr>
<tr>
<td>Laforge-Kolel</td>
<td>199</td>
<td>4</td>
</tr>
<tr>
<td>Standard</td>
<td>622</td>
<td>687</td>
</tr>
<tr>
<td>Franchise</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>UNIQLO International</td>
<td>633</td>
<td>646</td>
</tr>
<tr>
<td>China</td>
<td>306</td>
<td>226</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>48</td>
<td>37</td>
</tr>
<tr>
<td>South Korea</td>
<td>150</td>
<td>105</td>
</tr>
<tr>
<td>Singapore</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>Thailand</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>The Philippines</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>U.S.</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>U.K.</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Russia</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Global brands</td>
<td>1,368</td>
<td>1,190</td>
</tr>
<tr>
<td>GU</td>
<td>276</td>
<td>214</td>
</tr>
<tr>
<td>Theory*</td>
<td>460</td>
<td>411</td>
</tr>
<tr>
<td>Comptoir des Communes*</td>
<td>374</td>
<td>374</td>
</tr>
<tr>
<td>Princesse tam.tam*</td>
<td>162</td>
<td>150</td>
</tr>
<tr>
<td>J Brand</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2,786</td>
<td>2,442</td>
</tr>
</tbody>
</table>

* Including franchise stores.
Note: This table does not include stores or franchises UNIQLO.
Appendix 3: Uniqlo 5-Year Financial Results

Appendix 4: Advertising Materials

Ultra-Light Down Advertising Material

Unbelievably light, Ultra Light Down can be layered with ease for comfortable warmth. From $39.90
The Fletcher School

Uniqlo Case Study

Strategy & Innovation

ULTRA LIGHT DOWN
Unbelievably light, Ultra Light Down can be layered with ease for comfortable warmth.

from $49.90

ULTRA LIGHT DOWN PARKA
A light and amazingly warm jacket with a hood.

$69.90

SHOP NOW

HEATTECH Advertising Material

THE HEAT GENERATION

KEEPS YOU WARM. KEEPS YOU FEELING GOOD. CLOTHES THAT CREATE AND RETAIN WARMTH.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
</table>
| Heat Generation | When HEATTECH shorts body moisture, the movement of tiny staples actually generates heat to keep you warm.
| Heat Retention | Woven out of specially designed hollow fibers that capture air and insulate your body. HEATTECH prevents warmth from escaping from your body. |
| Odor Control   | A special antibacterial agent in HEATTECH helps to minimize odor.            |
| Stretchable Comfort | HEATTECH stretchy to give you a perfect fit and maximum comfort.         |
| Quick Dry     | HEATTECH fabric wicks away and quickly dries moisture.                      |
| Anti-static   | Thanks to its special water-repellent, moisture-repellent properties, the other materials will stay away from the surroundings, especially after repeated washing. |
| Non-deforming | Highly resilient and durable, HEATTECH maintains its shape even after repeated washing. |
### The 8 Functions of HEATTECH

<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heat Generation</td>
<td>When HEATTECH absorbs body moisture, the movement of tiny droplets actually generates heat to keep you warm.</td>
</tr>
<tr>
<td>Heat Retention</td>
<td>Air pockets between the fibers retain both body warmth and the warmth generated by HEATTECH’s moisture absorption.</td>
</tr>
<tr>
<td>Moisture Wicking</td>
<td>HEATTECH fabric wicks away and quickly dries moisture. Perspiration dries up instantly, so the fabric remains dry and refreshing.</td>
</tr>
<tr>
<td>Quick Dry</td>
<td>Thanks to its unsurpassed moisture retention properties, the fiber also reduces discomfort from static electricity, especially when putting on and taking off the garment.</td>
</tr>
<tr>
<td>Odor Control</td>
<td>A special antibacterial agent in HEATTECH helps to minimize odors.</td>
</tr>
<tr>
<td>Stretchable Comfort</td>
<td>HEATTECH stretches to give you a perfect fit and maximize comfort.</td>
</tr>
<tr>
<td>Anti-static</td>
<td>HEATTECH stretches to give you a perfect fit and maximize comfort.</td>
</tr>
<tr>
<td>Non-deforming</td>
<td>Highly resilient and durable, HEATTECH maintains its shape even after repeated washing.</td>
</tr>
</tbody>
</table>

*Some products have different functions.*
LifeWear Advertising Material

You feel it as you slip them on.
So comfortable, so right, so you—
clothes that are who you are
and where you are going.

LifeWear: Clothes for a better life
for everyone, every day.

Appendix 5: Store Designs

Uniqlo Store in Ginza District Tokyo
The Fletcher School

Uniqlo Case Study

Strategy & Innovation

Uniqlo Store on Fifth Avenue, New York City