

# [Strategic management at uniqlo](https://assignbuster.com/strategic-management-at-uniqlo/)

## Introduction

Dubbed as Japan’s retail success story in the new millennium, UNIQLO is a 100% consolidated subsidiary of Fast Retailing Co. Ltd, a Japanese retail holding company. UNIQLO formed the portmanteau for ‘ unique’ and ‘ clothing’ as am emblem of creativity and individuality of Japanese apparel industry. UNIQLO offers fashionable and high quality clothing at reasonable prices, and was seized as an opportunity to establish a brand position domestically and internationally, combining all the facets of the business from product design to final sales and the operation of the 790 stores around the globe. Primarily offing for a highly brand conscious consumer group, UNIQLO envisions itself as a leading global casual wear company targeting high sales and profitability growth. For UNIQLO, such aim could materialise based on the established strategies such as low cost management, cheapest manufacture and marketing schedules and prioritising customer requirements.

Today, UNIQLO is described as the apparel giant Gap, Inc.’s counterpart based on the 4, 000% share price increase, making UNIQLO as Japan’s third largest clothing retailer. However, it is not always victory for UNIQLO; the subsidiary also has its own share of downturns especially on its international expansion. For instance, expansion programmes in the United Kingdom (UK) saw a tumultuous stumble in profits, forcing Fast Retailing to shut down 16 of the 21 UNIQLO stores opened, because of competition. Most recently, three UNIQLO stores in New Jersey were also closed because of economic slumps. Despite these facts, UNIQLO maintains the spirit and still believed that the brand has only but way forward. How UNIQLO will going to do such is central to this paper, focusing on the company’s strategic management. External, industry and competitor analysis as well as the internal environment will be addressed.

## External Analysis

### Political Analysis

Political factors have direct impact on business conducts and operations. Decisions made by the affects the decision-making of retailers and could come in the form of policy or legislation. In Hong Kong, the ‘ one country, two systems’ is the prevalent governance philosophy which endows the special administrative region with a high degree of autonomy and its capitalist economic system. Within a capitalistic and free market-oriented economy, retail companies make the majority of microeconomic decisions but they have to conform to specific agreements. Mainland and HK Closer Partnership Economic Arrangement (CEPA) and the US-China Textile Memorandum of Understanding are two examples of this. The former provides UNIQLO with a tariff-free treatment, stating that products which have no existing CEPA rules of origin will enjoy tariff-free treatment upon applications by local manufacturers. The latter could provide UNIQLO with an opportunity for an annual growth of 8-17% in 21 categories of Chinese textiles and clothing exports to the US. Labor and customary regulations as well as code of conducts are also complied into including China Social Compliance 9000 and US and EU quotas (RSCA 2006; Doshi 2006).

### Economic Analysis

Domestically and globally, businesses are also being affected by economic factors whereby a strong economy indicates positive results and weak economy signifies the opposite, affecting both businesses and consumers. Hong Kong’s gross domestic product is estimated at US$206. 7bn with the service sector that contributes 90% of the total GDP. The region is also named as the world’s eleventh largest trading entity. Almost 50% of the total population is employed full-time and the unemployment rate has a continuous average decline by 4. 1%, making disposition of income a possibility, a lower cost of living that is (Monthly Digest 2008). Spending is generally devoted for food, housing, healthcare, transportation, amusement, services and apparel. People nowadays are very particular with ‘ investing in quality’ clothing thereby resume spending with premium apparel finds (Doshi 2006). Realising this, the price and quality characteristics of UNIQLO has a strategic fit; UNIQLO makes people look fashionable and confident in world-class clothes at a reasonable price through the company-wide integration of the Specialty Store Retailer of Private Label Apparel (SPA) model, a low-cost but effective operation model.

### Social Analysis

Demography or the population characteristics may determine buying patterns and that understanding demographic changes within a particular region or place facilitates determining whether products and services would appeal to customers as well as the number of potential customers (Barney and Hesterly 2006, p. 35). Hong Kong has a total of 6, 985, 300 population based on 2008 estimate and is continuously growing due to immigrant influx from Mainland. According to Doshi, people in HK and elsewhere have a growing interest in private labels. Consumers aspired for having private levels on everyday garments. Casual wear from HK which is known for good design and quality has a positive image on global consumers. Nevertheless, international brands are concentrated in high-end consumers while domestic brands are for low-end consumers (Doshi, 2006). In taking advantage of the wealth of the demography, UNIQLO makes effort on providing high-quality merchandise and generating values to the society by taxes. Further, UNIQLO is a company that is committed in creating positive reputation as manifested in its vision and mission, styles of management, ways of doing business and requirements to employees.

### Technological Analysis

Technological innovations are a priority for the apparel retailing industry but it will remain as labor intensive as it is today. Boosting the industry’s productivity, increased in automation has been the recent trend but it is limited on specific functions, to which mostly require human intervention such as sewing and making patterns. Although there are computerised sewing machines that increase the productivity and reduce training time. Further, the uses of computer system software intended for the industry will be on making rough sketches, printing detailed designs and storing of information for easy retrieval. The customer orientation of UNIQLO was basically construed from its website in which customers can give feedbacks by email and discussion board. Hong Productivity Council made a report disclosing that the apparel industry could make sense of information technology (IT) if utilise for order processing, costing analysis, order tracking, material management, reporting and connectivity (2004).

## Industry Analysis

### Porter’s Five Forces Analysis

#### A) Threat of Entry

Barney and Hesterly (2006, p. 43) point out that new entrants are the firms which have either recently begun operations or those that threaten to begin operations within an industry soon. Notably, the apparel industry is a buyer-driven industry where producers are considering buyer’s decision-making especially when brand names enter the picture. These buyer-centric industries have low barriers to entry mainly because of intense competition. Utilising brands as a market power source; however, this is a challenge for every clothing company. In the clothing business, mass customisation has seen to be the most effective strategy. Putting strategises into action remains to be in resilience today (Culpan 2002). Therefore, the focus must be on minimising the costs without sacrificing quality and to do this, managerial know how is a must in order to understand interactions with suppliers and consumers, to facilitate creativity and innovation and to maintain mobility in adapting to new market demands (Kincade, Regan and Gibson 2007).

Building brand awareness and consumer loyalty is a costly endeavor since it involves advertising needed not only to promote the brand but also on sustaining awareness and loyalty. Strengthening brand names also requires that there are ‘ quick response’ programs to increase revenues and manage risks. One of UNIQLO’s major resources is its brand name, which is now synonymous with comfortable, high quality and cheap clothing merchandises. Although brand awareness outside the home country is a challenge, it is of intangible value to UNIQLO as a business asset. Brands are valuable and rare and reputable brands are acquired through the impressions one has of the company, and its products or services. Since a brand name is built overtime it becomes costly to imitate thereby providing a sustainable competitive advantage in the apparel industry (Groucutt, Lydley and Forsyth 2004, p. 285).

#### B) Threat of Rivalry

Either in home or host countries, apparels, accessories and merchandise will always have a competitor which usually fluctuates in size. The modern market trends for the apparel industry are globalisation and intensified competition, increasing price and lower profit margin pressures, small quantity with high complexity orders, shorter lead times, multiple location operation, changing customer requirements and liberalisation on textile and clothing quota that creates new market dynamics. Being responsive to these market trends shifts the focus of the apparel industry for more extensive product development and improvements at the least possible cost. Such condition forces companies to divert on product differentiation because of high switching cost. In an industry where products are deemed to be ‘ equal’, the key sources of differentiation are brand image, reputation and prior existence (Byoungho 2004b). For UNIQLO, the products themselves are an important source of competitive edge. UNIQLO strives at developing products of high quality, in various collections to enable the company to reach the highest possible number of customers. As such, the rivals would be endangered when it comes to introducing innovative products. UNIQLO is positioned in the fashion capitals of the world for the purpose of taking advantage of the new information about fashion trends. UNIQLO’s ability to quickly adapt to trends and new markets has helped them develop product differentiation, something that is key to the company’s success in the apparel industry. According to Tokle (1990), product differentiation is what separates the top competitors from the rest, but it something that is not costly to imitate. This is why their product differentiation is only a temporary competitive advantage. Competitive advantage could be achieved once the organisation learns to manage its capabilities that the end consumers could appreciate and competitors would find difficulties imitating (Porter 1985; Roney 2004).

#### C) Threat of Substitutes

Casual wear is very particular with loose-fit, comfortable and relaxed fit. Athletic or active wear was perceived to be the closest substitute to casual wear as manifested by the booming athletic wear industry. Typically worn as casual fashion clothing, active attires could provide deterrence in the industry. Moreover, the blurring demarcation on the casual clothing family could be also seen as an opportunity for substitutes. Specialised stores offer semi-casual, smart casual and business casual lines. Semi-casual clothes are less presentational than informal but are not as loose as casual dresses. Smart casual purports conservative looks but with harmony on colors, fabrics, shoes and accessories. Business casual, on the other hand, varies in definition but the common element is the collar. Realising this, the bottomline now is the price. Moreover, based on the SPA business model, all the necessary functions at UNIQLO falls under a single umbrella especially the inbound logistics and the production. UNIQLO is an example of a cut-make-trim company in which in which the company purchase the fabric and retain ownership of the raw materials and work-in-process, and so making it hard for rivals to imitate or produce substitutes for UNQILO brands.

#### D) Threat of Suppliers

The prices and availability of commonly used fabrics such as cotton, blends, synthetics and wools might fluctuate significantly due to its dependence on demand, crop yields, weather, supply conditions, transportation costs, government regulations and economic condition among others (Byoungho 2004a). Quota is the major factor that affects the demand and supply of textile and fabrics. Even though the sale of raw materials is standardised, independent contractors, raw material suppliers, importers and apparel manufacturing firms could not isolate themselves from such scenario because of the prospective unsteadiness in the supply chain (Chetty 1999). As well, because of forward vertical integration, coupled with the low barrier to entry, suppliers could easily become rivals. In becoming threat of entry, suppliers could be also become a competitor to already established apparel manufacturers. In addition, contractors is also one of the threats when the demand of the labor increases, it will cause labor costs price inflation. Laszlo (2008) stress that there are five main parts of the apparel value chain including raw material supply, provision of components; production networks; export channels and marketing networks at the retail level. Through the process, UNIQLO has an ownership on production and thereby a complete control on the supplies procurement. UNIQLO insources its production and handles the majority of the operational details. Sourcing is a go-to in the apparel industry but it is not rare although it can add value to UNIQLO.

#### E) Threat of Buyers

Reaching more and diverse consuming group, the apparel industry is both a stable and unstable industry. Stable because quality price and quality products are the main element and unstable because there are many factors that affect both price and quality. In the point of consumption, for instance, there are ‘ middle men’ such as the retail stores that offer an array of brands. In purchasing manufactured apparel, retail stores could have influence on making significant requirements and demands on their purchase, affecting prices. Though quality is inherent, prices would not be reasonable at all, and alternative clothing is readily available. This explains why apparel manufacturing companies are setting up their own stand along stores which will cater to their own produce. Important is that apparel stores must not fall dependent on s specific class of customer. Buyers are increasingly appearing to prefer above standard apparel with a much lower cost, making apparel less differentiated. When selling directly to consumers, buyers would incur a significant portion of their dispensable cash. Same goes with retail store, they purchase apparel at the least possible final cost, but adds up to prices of apparel. UNIQLO is involve in selling to the customers through specialty store marketing, with a minimalist strategy of ‘ pile ’em high, sell’ em cheap’ concept that is. In addition, the unbranded fashion or the no-logo concept was perceived to be the main reasons for people’s warm attention (Williamson 2007; Parrish, Cassill and Oxenham 2006).

## Competitor Analysis

### Local Competitors

#### 1) Bossini

There are three competitors for UNIQLO: Bossini, Giordano and Muji. Bossini International Holdings Limited is an apparel brand owner, retailer and franchiser nestled in Hong Kong. From its onset in 1987, Bossini continued to grow both domestically and internationally. Today, the global distribution network is comprised of 551 directly managed and franchised outlets in Mainland, 322 export franchised outlets, 178 directly managed outlets in Hong Kong, Taiwan, Singapore and Malaysia and 1, 051 outlets in 20 countries. Taking pride on its Bossini brand that is comfortable, easy to mix-and-match, colorful and energetic like the ‘ Family-Fit’ brand, Bossini was able to cater to various consumer requirements in a value for money fashion (Bossini Annual Report 2006/2007).

The strength of the brand and the people was drawn from the seven practices: face reality, keep it simple, act with the speed of light, set stretch goals, drive quality, create and sustain a learning organisation and keep the A, nurture the B and discard the C. Through this set of practices, Bossini puts emphasis on quality, efficiency and profitability as a source of competitive edge. The company is also continuously building brand awareness by means of innovative cross-regional marketing activities. In enhancing its supply chain, Bossini shorten the product cycle from design to store and will continue to build string ties with them in a proactive manner. Building up an IT system is a strategy meant to drive future growth and profitability. Though the company deals with closure of unsuccessful outlets whenever necessary to divert their attention to areas which needs a closer concentration and with participating in broad campaigns and dual-branding to promote the products and to expand market reach, Bossini is more focused on its four core markets.

#### 2) Giordano

Established in 1981, Giordano is one among the popular and established casual apparel retailer in Asia Pacific Region which employs about 11, 000 staff with over 1, 895 shops operating in 30 territories worldwide. From its restructuring from 1986, the company prepared for international expansion, which was made possible by the initial success in Hong Kong, Mainland and neighboring countries such as Taiwan and Singapore. Known as the most successful homegrown retail stores, Giordano is a pioneering company that participated in drafting of code of practice in the retailing scene and introduced innovations such as the total shopping experience where customers are greeted individually in the doorstops and bade goodbye unto when leaving the store.

Envisioning itself in making people feel good while looking great, the company’s main strategy is its ‘ For the People’ philosophy wherein quality, knowledge, innovation, service and simplicity are at the core. As an apparel of choice, Giordano is also committed in providing simplicity of design, quality workmanship, attentive customer service and value-for-money, allowing the company to strongly build its own loyal following (Giordano 2008). Though the four brands – Giordano Ladies, Giordano Concepts, Giordano and Giordano Junior – are constantly profitable, the weakness is that Giordano has a limited range of products and that consumers may grew tired of the existing concepts.

#### 3) Muji

Ryohin Keikaku, better known as Muji, is an outgrowth from The Seiyu, Ltd. In becoming a separate brand, Muji develops range of apparel, household goods and food that takes pride on being functional, simple and of high quality.

Literally means ‘ no brand’, the over 700 Muji products observes the philosophy of simplicity. Primarily purporting an individualistic and diversified lifestyle, Muji follows three processes that is said to be the reason for proving good quality products at lower prices. These are selection of materials, streamlining processes and simplification of packaging.

The company’s emphasis on preventing materials wastage and improvement of essential product quality as well as time and labor optimisation are the key in achieving operational effectiveness and efficiency. The selection of materials is a very important stage for Muji where suitable raw materials are the main concern. Bulk buying is a strategy wherein quality is the indispensable criterion, underpinning the possibility of producing high quality, low prices products. Thereby, the weakness is on changes in demand and supply of raw materials. Standards at manufacturing stages are also under close scrutiny in order to eliminate waste and reduce cost. When it comes to packaging, Muji sticks to the simplicity philosophy, bearing only product related information and the price tag (Ryohin Keikaku Co., Ltd.).

### International Competitors

#### 4) Gap

Gap, Inc. and United Colors of Benetton are the two international competitors for UNIQLO. Gap, Inc. has been officially incorporated in 1988 as a global specialty and outlet store which offers casual apparel, accessories and personal care products. Gap, Banana Republic, Old Navy and Piperlime are the four primary brands. As a way of building the value of the brands, Gap is very fastidious with brand development, ensuring that value will be integrated from product design to distribution onto marketing, merchandising and shopping environments. The strong point of Gap is its continuous commitment in enhancing the brand; in fact, Gap has an intensive portfolio of brands covering classically styled, high quality, casual apparel at moderate prices for virtually all ages. However, the weakness is on inventory turnover. Emphasising style, quality and good value, Gap embraces a shopper friendly environment where store facades vary depending on selling season, size and location of the store. Just like UNIQLO, Gap is never threatened of closing under-performing stores and expanding and remodeling existing stores (Gap Annual Report 2006).

#### 5) Benetton

A global clothing brand which is based in Treviso, Italy, the name Benetton originated from the Benetton family who founded the company in 1965. Now in existence in over 120 countries, Benetton started with only 5 stores in 1979 which were bounded to reach 800 stores today. The 5, 500 network of contemporary stores worldwide are the reason for generating a total turnover of 2 billion euro. Fashion apparel is the core business wherein quality, style and passion through the brands such as United Color of Benetton, Sisley, Playlife and Killer Loop are the main concerns. Mixing energy, colors and practicality, Benetton offers a portfolio of products for men, women and kids. The strength is in its innovation and IT integration in producing 160 million garments annually. At Benetton, superior product quality is achieved through committing every stage of the production process with innovation and creativity. The weakness is on the tendency for incoherent diversification (Benetton website 2008).

Common to all the competitors of UNIQLO, either domestic or international, is the international expansion strategy known as the judo strategy or the conscious decision to move rapidly into new markets where there is uncontested ground.(Hilburt-Davis 2002), and providing the best value of money based on distinct brands. Product differentiation, low cost production and gateway market penetration like UK and the Mainland are other strategies that these competitors pursue, in the same way like UNQILO is doing. It is important that brands must conform to the needs of the customers of varying age structures and preferences and producing brands where value was mounted from the very first step. Quality and customer service are the main concerns, followed by style or design and functionality. Brand development and building brand awareness as well as the overall look of the establishment are also the priorities. Common also to Bossini and Gap is the closure of unproductive stores/outlets while Benetton takes pride in its IT integration in production. Bossini also engages in dual-branding in terms of marketing. Since it is also common to all of these competitors to conceptualised product portfolio, the weaknesses are on incoherence in diversifying the products, apart from inventory turnover and focusing on core markets. Typically, when these scenarios happen production will be affected and it would not be advisable for those companies which are into bulk buying especially that the styles are immediately paced out.

For UNIQLO, the weaknesses of the domestic and global competitors could be reaped off as new strategies and the strengths could be manipulated as new advantages. The UNIQLO could be upgraded in opening flagships stores in every gateway market so as to equally diversify brands and gateway locations, catering to all forms of demographics. For UNIQLO, product mix and shopping spree would be plausible especially if it will come in bolder shades, with better quality and cheaper prices, but are manufactured based on forecasted demands. To take advantage of the opportunities that competitors impose, UNIQLO must also open its horizon into new product trends including the silver market and the plus-size market as part of the brand concepts. Although all of the competing companies including UNQILO are into casual, everyday wear, what will set UNQILO apart from them is the potential of easy care clothing where fabrics are very fluid and/or wrinkle free.

## Internal Analysis

### SWOT Analysis

#### 1) Strengths

UNIQLO was deemed successful because of its commitment in divergence which supports the individuality of each family member as well as those with fashion-forward and edgy people. These products are of expected high quality because of the effective global materials procurement. Given this, UNIQLO’s products are designed parallel with the customer requirements and worldwide markets trends. Voice of the Consumer (VOC) is one of the key in building the most effective brands. For UNIQLO, however, this is not enough, it should be joined with direct engagement in value chain process and doing it through a low-cost, quality-driven manner. In the post production stage, it is also important for UNQILO to obtain effective distribution management and inventory control. UNIQLO is an expert in store development thereby efficient store operation in addition.

#### 2) Weaknesses

Japan and Fast Retailing are devoted in simple, functional clothing with minimalist clothing details rather than cutting edge, extravagant clothing. This is the mark of UNIQLO, but could also be its major weakness in penetrating fashion-oriented places such as London, Paris and New York whereby fashion element of UNIQLO products are very limited. Another weakness is that UNIQLO belongs to a multi-layer distribution structured industry; distribution digestibility is hard, leading to clogging in distribution inventory. UNIQLO is also originally designed for low-end consumers and that they will face a head-to-head competition with all kinds of market such as high end, high street, ethical consumers and cut-price shoppers when operating abroad. In some places, profitability is largely determined by the opportunities of retail season like back-to-school and holidays. In both cases, UNIQLO must already acquire the necessary managerial and operational competences prior to establishing a presence in these places; but in the case that UNIQLO would not be able to tap on being responsive enough to these threats; this will impact the business results.

#### 3) Opportunities

Belonging to an industry where fashion and apparel market trends are unending, UNIQLO is operating in a global business where companies’ direction and business activities are always expanding. Globalisation provides the apparel industry with grater simultaneity with the help of technology, facilitating the exchange of information with speedier level. Because of interdependence, free trade zone has also seen as profitable because fashion, textile and apparel markets became borderless. While also making larger profits, UNIQLO could invest in social influence or its corporate social responsibility. What’s left for UNQILO is to grab the opportunity of a faster information and knowledge transfer from these locations through a full force IT integration including the customers. The teenager market is also another opportunity the UNIQLO could exploit since this group is very meticulous in value shopping and they have preferences of where to shop and how to shop.

#### 4) Threats

Changes in economic conditions, changes in consumption trends and intense competition are just three of the treats that UNQILO, and all other apparel firms, is currently facing. Foreign currency affects the business conduct of UNIQLO because of the locational position of the operations. Johnson and Scholes (2002) relate that strategic positioning is an imperative in realising the strategic capabilities of organisations. UNIQLO has a geographically dispersed operation: fashion designers are in Tokyo, New York and Paris, garnering first hand information in fashion trends; manufacturing departments are in China where cheap labors reside; headquarter is still in Japan which takes responsibility in strategic decision making. Labor and materials could fluctuate depending in the performance of yen comparable to US dollar’s. In events that the economy of either one of the mentioned locations drifts, UNIQLO’s operation will be shaken. In addition, the apparel industry where UNIQLO plays as a major player is contaminated with customers’ influences where the possibility of switching brands is always a possibility.

## Conclusion

Described as the equivalent of Gap, UNIQLO is increasingly becoming known in the global apparel industry. UNIQLO continued to be a brand of preference because of the quality, simplicity, functionality and cheaper prices of the merchandises. Although UNIQLO is politically influenced by CEPA and US-China memorandum, UNQILO invests only on opportunities that are profitable, advantageous and will purport the continuous geographic expansion of the company. UNIQLO has an advantage when it comes to individual spending basically because clothing is a basic need. While at it, however, UNIQLO must not ignore the social aspects of doing business which is to provide people empowerment when it comes to giving to the government through tax. The company is also committed in enhancing customer service through acquiring the VOC.

Entering the apparel market is relatively easy; however, new entrants must face the challenges of building brand awareness and coping with the emergences of new trends. There are at least five major rivals for UNIQLO – Bossini, Giordano, Muji, Gap and Benetton. All these rivals are involved in continuous product differentiation since, depending on the fashion trends, substitutes could instantly emerge. Because of the SPA model, UNIQLO’s processes are inherently rare; sense of ownership in process responsibilities is the key. The ‘ pile ’em high, sell ’em cheap’ concept, as well, is an attribute unique to UNIQLO. In sum, the prevalent strategy at UNIQLO is the continuous domestic and global expansion and low cost production and management, achieved through continuous strengthening of the already reputable brand, ownership of processes, obtaining the VOC, sound distribution and inventory control and efficient store operations.

To evaluate, the current strategies of UNIQLO are providing the business with immense profitability and growth. However, UNIQLO already has a record of mistake in focusing more and prioritising international expansions; thus hurting the reputation of the company specially in terms of managerial capacity, expertise and competence. There remains the fact that the products lag behind the quality of the products generated from the fashion centers of the worldwide considering that designers are already in that places. A fact also is that UNIQLO has an immature experience curve in aspects of global market penetration. Shutting down of 16 of the 20 stores in the UK in 2001 and 3 stores in New Jersey are clear-cut evidences of the incompetence on the side of UNIQLO. Global integration proved to be futile especially because UNIQLO is easily shaken up by global economic changes. UNIQLO admits that the closure of the New Jersey stores is because of the recent recessions and investment drifts in the US. In the UK, stores faced closure because of the failure to recognise the consumer preferences of Britons, which are very different with that of Asians and Japanese per se.

There are two recommendations for UNIQLO: Asian market integration and establishment on an online shopping site. The first centers the idea that UNIQLO is an Asian product and must be initially offered to Asian consumers. The appreciation of Asian consumers, though they also vary depending on individual cultures, would be much higher compared to that of the Wester