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The Secret to Uniqlo's Overwhelming Success and Japan's Textile Industry

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I would like to talk a little about my company. Uniqlo now runs a total of 517 stores throughout the country at suburban roadside and city center locations. This year sales are projected to reach 400 billion yen. The first Uniqlo store opened in 1984 and we began expansion into chain stores in 1991. I initially envisaged a chain of stores numbering up to about 1000. When we opened stores, we would make decisions based on investment efficiency and whether we can expand reproduction. My idea was to create a chain of stores that had a clear sense of identity, as did American stores like the Limited and GAP. Our first store was opened on a back street in Hiroshima, after which we opened stores in the suburbs of Okayama and Shimonoseki. That was at a time when designer and character (DC) brands were enjoying their greatest popularity, and the shops were visited by many older and family customers.

I noticed that casual clothes are ageless – what is more they are unisex. Until that time we had made clothes aimed solely at young men, but we started creating clothing for people of all ages and both sexes.

In 1985 the Plaza Accord was concluded and the yen strengthened, but prices did not decrease, which propelled me to travel to Hong Kong, thinking that was a place where I could learn about market values. In the factories I visited, I was surprised by the high

quality finish of such goods as polo shirts, and we began doing business right away. I felt for the first time that casual goods could be a business that would surpass the previously defined borders of the production and retailing industries as well as national borders.

It was around that time that the president of the Limited appeared in the mass media. The Limited had started out as a company that would order approximately 600 sweaters in one batch, but within a short span of time had expanded to become a company that could cope with orders of three million. Seeing this story was a personal epiphany, and I thought, “Yes! That’s it!”

Until that time I had always been fond of buying and selling goods, but knew absolutely nothing about management techniques. I read a book written by a public accountant and I contacted the author of that book using the address at the back of the book. In those days Uniqlo was turning an operating profit of 40 million yen, but was not yet ready to be listed on the stock exchange. The accountant I contacted advised me to see to it that the company could function without the president and be prepared to make disclosures. I then made the decision to go public and three and a half years later Uniqlo was registered on the stock exchange. I planned to open up to 100 stores in the space of three years. In 1994 Uniqlo was listed on the Hiroshima Stock Exchange and it is now registered on the Tokyo Stock Exchange as well.

At that time the prevailing image of casual clothing was as “trendy” apparel and the sole preserve of young people, which was the image I wanted to break down. The image I

was aiming to project was that casual clothing is perfect for everyday use. In those days there were only two kinds of casual clothing – the cheap and poorly made kind or the brand labels that were of good quality but expensive. I realized that if I were to produce high quality and inexpensive clothing then it would be imperative to dispose of all waste in the process. I am proud that I have been able to achieve such a turnaround in people's perceptions and produce clothing that people actually wear.

It was once thought that the casual clothing market was only a niche market, but in actual fact it is worth six trillion yen annually. I believe that individuality does not rely on clothes, but on the individual person, in fact if the clothes themselves are too unique, people may feel awkward wearing them. It was my intention to make clothing consisting of constituent parts that would complete a whole "look." In overseas companies, there are examples of companies that achieve a two or three-fold increase in the annual sales growth rate of several trillion yen, and I was confident that such an achievement would be perfectly achievable in Japan. For growth with such a posture, a high income is of course the most important factor and without this any company would inevitably go to the wall.

Then it occurred to me to ask the question, "What makes a good company?" My concept was that a good company was one that had a good posture and attitude and this is the universally accepted global norm. Although Japanese and American companies are usually distinguished by their management practices, I believe what makes a good company is the same the world over. I aimed to go about management following fundamental principles. Concerning a corporate concept, however, I had no faith in my

own individual ideas alone concerning management. I believe that unless a company is run based upon universal concepts it will not survive.

Uniqlo has faced three turning points in its history. The first came in 1984 with the opening of a casual wear shop in Hiroshima. Our second turning point came in 1991 when we evolved into a chain store. The third turning point in the company history came with the opening of the Harajuku store in Tokyo in 1998, and the success of our fleece campaign, which confirmed to all that the “casual direct” era had finally come of age. What I mean by “casual direct” is to listen directly to the wishes of the customer and according to these wishes make appropriate plans, production, distribution, and sales, to create the optimum business model in all respects. Responding to the needs and desires of the people who are buying the products is key to mass production.

I would now like to talk a little about the Uniqlo boom. Rather than stating that what we have achieved, I would rather say that the boom is due to a transformation in consumer recognition. The concept for the Uniqlo brand that I attempted to convey was for a “new casual brand that all people could wear at any time.” I thought that if I could get this across then products would sell. Uniqlo’s big break came when this concept became well accepted. I would like to make Uniqlo a nationally recognized brand.

I would now like to discuss the “casual industry.” To date, the textile industry has not been classified as a major industry in industrial classifications. I would like to coin the phrase “casual industry.” I believe that the casual industry and the high-tech industry share many similarities.

At Uniqlo we maintain a corporate culture similar to that of any high-tech venture company, such as having partnerships with employees. In our company I am one of the oldest members, with the majority being in their 20s and 30s and a number of people in their early 40s. We have entered an era in which only new and efficient companies can survive throughout Japan and the world.

At the moment there are remarkably few Japanese companies that show any signs of vigor or success. But to the extent that there is market demand and the potential for demand, we will grow. It is very important for us to maintain our hopes for the future and to not lose sight of our dreams. Uniqlo is based in Yamaguchi Prefecture, in Japan, but I think of it as a global entity. If I did not hold such a viewpoint, we could not expect to survive in Japan.

It is regrettable but true that in Japan, the elderly are the only ones holding money. The young population with disposable income consists mainly of wealthy young boys and girls. The worst thing with Japan is the inefficiency of administration. If we go on as we are, we run the risk of becoming a second rate, directionless country. In addition, the great majority of executives and managers hold a pessimistic view of the current situation and if this view persists, no change will ever be initiated. It is necessary for all companies to consider their strong points. Although it is said that the ills are due to the economic recession, I think it would be better to question ourselves. I would suggest that the textile and retail industries are just suffering from system fatigue. It is a fact that if one looks throughout the world, it is possible to find companies that are increasing

their sales by two or three times. We should consider the means of achieving the same results. There is no other country with the infrastructure, human capital, money, and transportation like Japan. Managers should consider this fact when they think of their position.

There are also people who feel that apparel alone is a special product, but I believe this is a flawed argument. I think those who believe that fashion is god are also wrong. With the concept that retailing is nothing but redistribution, without further added value nothing new can emerge. We should first think about how Uniqlo differs from other companies and how it differs from the industry of which it is a part.

Throughout Japan and indeed the world one of the largest problems is inefficient corporate management. Japan's economy is currently in the worst shape among developed countries. Under the current situation, where Japanese-style employment practices still prevail, the ostensible unemployment rate stands at 4%, but I believe that a more accurate figure would lie around 10%. Institutions such as bid rigging, seniority based wages, and groupism are all old fashioned. Like it or not, Japan has to maintain itself as a bastion of capitalist countries. Until now Japan has always displayed tendencies that were more socialist than capitalist, but socialism leads nowhere. Capitalism describes a system in which companies that do not show a steady profit cannot expect to survive. Even old-style industries are now finding themselves in an era of competition. We are also in an era of excessive supply, where for every one strong competitor there are 100 weak ones. This is the case around the world.

I am always telling my employees that, to date, Japan has been a society in which businessmen could expect to receive 10 million yen a year. From now on, Japan will become a society in which there are those who earn one million yen a year and those who earn 100 million yen a year. Those employees who provide value-added can expect to earn 100 million, whereas those who merely go through the motions of working can expect only one million yen. It is no longer sufficient to roll out the old axiom that, “those with the ability should provide the knowledge, and those without should provide the sweat and labor.” We are now in an age where if either company or employees do not have the knowledge, then they will not be able to survive. This means that those people who are only capable of performing simple tasks can only expect to be paid the same as their counterparts in developing countries. Those who provided the value-added can expect to reap the rewards.

Take the automobile industry. I imagine that no one thought it possible that the only wholly Japanese owned car companies would be Toyota and Honda. We are in an age where GMS and department stores are continuing to develop. If we were to compare the current situation to high school baseball, we would say, "We are now in an age where, unless we go to the major leagues, we cannot survive." We need people who aspire to the major leagues. If there are people out there who have such aspirations, we need these people to provide the added value and to manage themselves as if they were running their own businesses.

We make demands such as these on the managers of our stores. Business people who are able to function independently are crucial for Japan's future change. Businesses are

at the mercy of the evaluation of the consumer. There are customers who will only buy if the price is right and from the outset we must provide added value. If the customer can be impressed, then sales and accordingly profits can be expected. If we are able to achieve this process, we will continue on the growth track we have achieved to date with the ultimate goal of becoming the top global casual industry.

Comment by Mr. Hiroshi Tsukiizumi: I do not think there is any other person who has such a clear management philosophy. I first met Mr. Tadashi Yanai in 1994. At that time Uniqlo had developed into a company of about 100 stores. I visited him and interviewed him for a magazine but it turned out to be the case that I was unable to ask any questions. Rather, Mr. Yanai posed the questions and questioned himself. I had written a book about Aoyama Trading Co., Ltd., and it would seem that Mr. Yanai had read this book and he questioned me relentlessly about it. Mr. Yanai is serious about study and learning and I received the vivid impression that he was a true venture capitalist, one of a new breed of managers.

Last year after a long hiatus I covered him again in the media. After the explosive success of the fleece campaign, it turned out that he had not changed at all. It would appear that even though Uniqlo was enjoying good times, he maintains his vigor and still holds a keen sense of crisis consciousness, which confirmed to me his will and energy to continue to expand the company.

Uniqlo is the first specialty store retailer of private label apparel (SPA) in the apparel trade. Consequently, its successes have been very great. High-value production has

always been one of the tenets of the retail industry, but the main reason for Uniqlo's success has been its revolutionary management style. Mr. Yanai is very logical and puts his theories into practice – a rare breed in the world of Japanese management. There are three points to his management philosophy. The first is self-reform. The second is the importance of risk management due to the high risk associated with manufacturing and sales through SPA. The third point is the power to implement.

There is no other company that has been able to so totally deny and do away with past methods. He has managed to effect a volte face, turning his back on previous growth patterns to completely change the corporate paradigm and advance a new and alternative business model. At each turning point in the company's history – the change to casual wear, becoming a chain, and the opening of the Harajuku store – Uniqlo has constantly reinvented itself. This power to redefine and reform is what is truly astounding.

Risk management, viewed objectively, is risk taken proactively, and there is the chance that the multiplier effect could bring about explosive growth. The fleece campaign was a massive hit, selling 2 million in autumn/winter 1998 and 8.5 million in autumn/winter 1999. Asked what his forecast was for 2000, Mr. Yanai said that he expected to sell 12 million fleeces. It always been common business practice in this industry that what is a hit seller one year can be expected to sell well the following year, but that has been transcended by Uniqlo with super-aggressive marketing. Ultimately, in the autumn/winter period of 2000, Uniqlo succeeded in selling a total of 20 million fleeces. What is more, Uniqlo spent around 18 billion yen on advertising fees, in an industry

where it is rare to ever spend more than 10 billion yen. Television and poster advertisements have been the key to Uniqlo's brand building success.

There has also been diversification of stores from suburban roadside establishments, to other more established city center shopping areas. Shops are now being opened in and around train stations, which is in stark contrast to Uniqlo's previous business structure, proving that it has changed in a very short space of time. Usually when companies take on the implementation of the three risks, there is usually one that does not work out well from a management point of view, but Uniqlo has managed to implement all facets successfully, and has indeed enjoyed the benefits of the multiplier effect.

One example of Uniqlo's individuality that has already been given is that of super-high speed management. In the past it used to be the case that directors would remain in the same position for many years before being replaced. In 1997, Famiqlo and Spoqlo were opened and closed within the space of six months. Mr. Yanai mentioned this in his appraisal of Japan, and it is true that the previous set of values held in the corporate world now no longer hold true. Currently a very high stage has been set and other competitors are now breathing down Uniqlo's corporate neck. We are in an age where GMS and department stores are facing the facts and moving toward change. In a deflationary economy, targets change with the seasons. All areas of the economy and society are now facing a period of reform led both politically and economically. Uniqlo is truly the star of the moment in the current environment.

-The RIETI editorial department is responsible for this article.

