



SHUTTERSTOCK / NED SNOWMAN

RECOVERING **FAST**

Japanese retail giant Uniqlo has been able to stem the rot triggered off by the pandemic.



SHUTTERSTOCK / AUGUST 0802



SHUTTERSTOCK / NED SNOWMAN

AFFLICTED BY THE PANDEMIC

The COVID-19 phase was at its **worst across the globe** during March-July 2020, with a series of lockdowns and increasing cases of virus infection. Fashion was **among the major casualties**.

However, Uniqlo **Japan sales recovered a little earlier** from mid-May 2020 with clothing demand in the pandemic shifting toward casualwear, loungewear and sport utilitywear. Uniqlo operations in North America and Europe were **hit hardest** by COVID-19, resulting in **a poor overall performance in FY20**. Nevertheless, online sales expanded rapidly. Greater China revenues and profits too declined in FY20 due to COVID-19, but **the market recovered strongly** after the controlling of the pandemic.

By **Sanjay Bakshi**

Fast Retailing (FR) Co Ltd is a Japanese fashion powerhouse, ranked the world's third-largest manufacturer and retailer of private label apparel in terms of sales. The company has a diversified brand portfolio with Uniqlo as its pillar brand; GU as the affordable fashion; and a collection of global brands including Theory, PLST, Comptoir des Cotonniers (established in France), Princesse tam.tam (French lingerie brand), Helmut Lang (founded in Vienna, Austria) and J Brand (originated in Los Angeles, US).



UNIQLO

Fast Retailing's revenues have grown at a CAGR of 3.6 per cent for the last five years while its operating profits declined at a CAGR of 1.3 per cent during the same period. In FY20, its online sales were ¥300 billion, contributing ~15 per cent to the total revenues. The company has set a goal of expanding this to 30 per cent. Geographically, online sales accounted for 13 per cent of total sales in Japan, 20 per cent in Greater China, 40 per cent in North America. The rest were in Southeast Asia, Oceania and Europe.

The company's strength lies in that it manages the entire clothe-making process itself. The process ranges from planning, manufacturing and distribution to in-store and online retail, right through to even recycling. This uniqueness has placed the company on the global fashion map as one of the world's biggest apparel companies in terms of production volume.

Fast Retailing's pillar brand Uniqlo follows a well-defined operational and business model, encompassing three functional areas—planning, production and sales. Each delivers a specific role for the next stage in the process to take over.

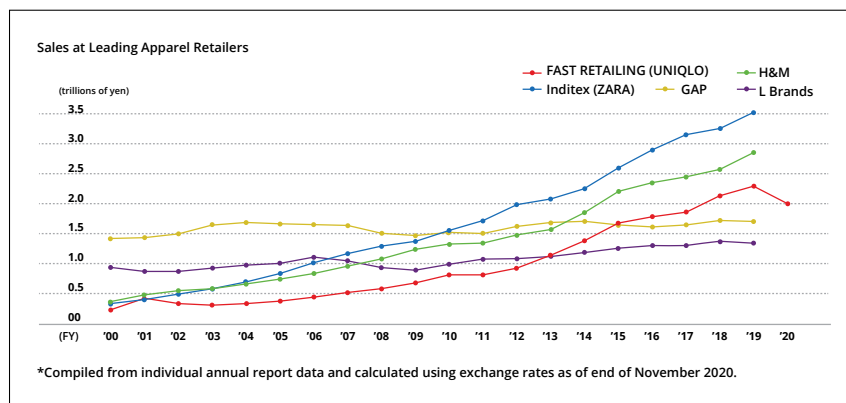
- Planning:** The Uniqlo R&D department while constantly researching on the latest materials and global fashions

TABLE 1 Fast Retailing Co. Ltd. at a glance

(in ¥ billion)	FY15	FY16	FY17	FY18	FY19	FY20
Revenue	1,679.0	1,783.7	1,858.9	2,127.2	2,287.5	2,006.3
Operating profit	174.9	149.3	183	245.4	273	163.9
Store count*	2,978	3,160	3,294	3,445	3,589	3,630
Retail space*	20,30,031	21,88,688	23,92,618	26,71,629	28,81,485	30,47,360
No. of employees	41,646	43,639	44,424	52,839	56,523	57,727

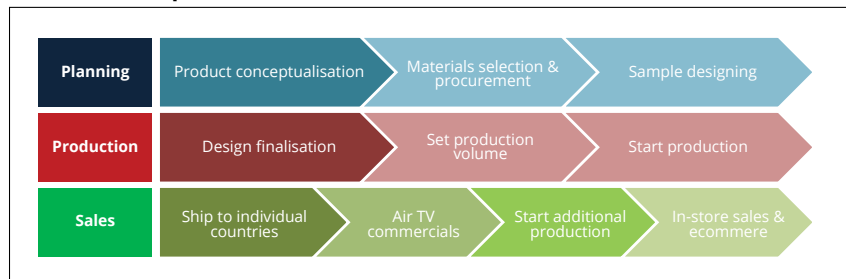
SOURCE: company reports; FY: 1st September - 31st August; *including all brands

FIGURE 1 Sales at leading apparel retailers



SOURCE: Company report

FIGURE 2 The Uniqlo model



OVER THE YEARS: THE TIMELINE

20th century

- **1949:** Men's Shop Ogori Shoji founded in Ube City, Yamaguchi Prefecture; becomes Ogori Shoji Co Ltd in 1963
- **1984:** Uniqlo's first store - Fukuromachi, in Hiroshima (closed in August 1991)
- **1985:** First roadside location - Yamanota Store, in Yamaguchi Prefecture.
- **1991:** Ogori Shoji Co Ltd changes name to Fast Retailing Co Ltd.
- **1998:** First urban store – Harajuku, in Tokyo (Closed in 2012); 1,900-yen fleece campaign attracts large public attention.
- **1999:** Uniqlo Shanghai office opens; Company stock listed on Tokyo Stock Exchange.



SHUTTERSTOCK / IMOKUC

First decade, 21st century

- **2000:** Headquarters shift to Tokyo; Online store opens for business.
- **2001:** First store in London launches global expansion.
- **2002:** Design studio (current R&D centre) begins operation; first China store in Shanghai.
- **2004:** Design studio (current R&D centre) in New York; A JV formed with Korean Lotte Shopping Co Ltd. to expand in South Korea; first large-format (1,600 sq m) Uniqlo store in Shinsaibashi, Osaka (closed in 2010); Uniqlo made Global Quality Declaration; Cashmere campaign launched.
- **2005:** Retail footwear chain Onezone Corporation becomes subsidiary (operating under Uniqlo Co Ltd from April 2010); a holding company structure adopted to develop new business opportunities; debut stores in Seoul (South Korea), New Jersey (US) (closed in 2006) and Tsim Sha Tsui shopping district (Hong Kong); first women's specialty underwear store – Uniqlo BODY, first Uniqlo KIDS (line of store closed in July 2009), and a large-format store (closed in August 2009) in Tokyo's Ginza Shopping District.

- **2006:** Strategic business partnership formed with Toray Industries Inc; Uniqlo All-Product Recycling Initiative began; invests in Viewcompany Co Ltd, a specialty retail shoe chain for women (becomes subsidiary in February 2008, operating under Uniqlo Co Ltd from April 2010); first global flagship store in New York.
- **2007:** Uniqlo HEATTECH campaign; large-format stores at Kobe Harborland and Setagaya Chitosedai; second global flagship store - Uniqlo 311 Oxford Street (London), first large-format store in South Korea - Uniqlo Myeongdong, and first Uniqlo France store in La Defense, Paris.
- **2008:** JV established with Wing Tai Retail Pte Ltd to expand in Singapore; subsidiaries GU Co Ltd, Viewcompany Co Ltd and Onezone Corp merge to form Gov Retailing Co Ltd. (footwear business operating under Uniqlo Co Ltd. from April 2010).
- **2010:** Uniqlo establishes wholly owned subsidiary in Taiwan; Debut stores in Moscow (Russia), Taipei (Taiwan) and Kuala Lumpur (Malaysia); flagshop stores at Shanghai West Nanjing Road in China and Shinsaibashi in Osaka,

Japan; Uniqlo and Toray Industries Inc extend strategic partnership through a second five-year plan.

Second decade, 21st century

- **2011:** First location in a department store - Uniqlo Daimaru Umeda, in Osaka region; renovated Ikebukuro Tobu Store (~3,300 sq m) reopened as the largest in Tokyo; debut store in Bangkok (Thailand), and, global flagship stores in Mingyao Department Store (Taiwan) and Fifth Avenue (New York).
- **2012:** Debut stores in Manila (Philippines) and San Francisco (US); launches Uniqlo X UNDERCOVER (UU) Collection.
- **2013:** Flagship stores Lee Theatre Store (Hong Kong) and Shanghai (China), debut store in Jakarta (Indonesia) and two Grameen stores in Dhaka (Bangladesh).
- **2015:** A Disney-collaborated project MAGIC FOR ALL and collaborative Uniqlo & LEMAIRE Collection launched; debut store in Antwerp (Belgium); third extension for Uniqlo-Toray partnership to develop new functional materials.
- **2016:** Orchard Road store - first global flagship store in Southeast Asia; refurbished Uniqlo SoHo global flagship store in New York; debut store in Toronto (Canada); retailing of new Uniqlo U line (developed by Artistic Director Christophe Lemaire & his team) began in stores worldwide.
- **2017:** Product and commercial functions move from Roppongi Office to newly opened Ariake office; bigger and better Uniqlo online store in Japan including new "Shop by Look" services; debut store in Barcelona (Spain).
- **2018:** Professional tennis player Roger Federer and snowboarder Ayumu Hirano appointed as Uniqlo's Global Brand Ambassadors; Debut stores in Stockholm (Sweden) and Amsterdam (Netherlands) and global flagship store in Manila (Philippines).
- **2019:** Debut stores in Copenhagen (Denmark), Milan (Italy), New Delhi (India) and Ho Chi Minh City (Vietnam)
- **2020:** Re.Uniqlo launched to promote clothing support for refugees and displaced persons (REUSE), and circular recycling of collected second-hand clothing into entirely new products (RECYCLE); Launched Jil Sander's +J collection in Uniqlo stores worldwide.

Besides Japan, Uniqlo has a large international presence in Southeast Asia. This presence is led by Greater China comprising mainland China, Hong Kong and Taiwan. As of December 31, 2020, a total of 903 stores were operating in this market, of which mainland China hosted 802, Taiwan had 70 and Hong Kong 31 stores.



UNIQLO

develops new products based on customer needs and identifies new demands. It holds concept meetings with the merchandising, marketing and material development teams a year in advance before the specified product launch so as to determine the right design concept for each season. Designers then prepare the designs and samples are refined, provisioning for multiple refinements in colour and shapes before their final approval. Merchandisers then take over and finalise with the relevant departments the designs and materials required for each season's products. Related marketing strategies for product launches are drawn and required product lineups and volumes are decided. Many products are manufactured in batches of about a million units, sales levels are closely monitored, and production volumes are adjusted as per the season's requirements.

- **Production:** Uniqlo does not own any factory. Instead, it outsources production to partner factories, mostly located in China. Other countries hosting partner factories include

TABLE 2 Business

UNIQLO (in ¥ billion)	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Japan business	780.1	799.8	810.7	864.7	872.9	806.8
Operating profit from Japan business	117.2	102.4	95.9	119	102.4	104.6
Revenue from International business	603.6	655.4	708.1	896.3	1,026.0	843.9
Operating profit from International business	43.3	37.4	73.1	118.8	138.9	50.2
Total revenue	1,383.7	1,455.2	1,518.8	1,761.0	1,898.9	1,650.7
Total profit	160.5	139.8	169.0	237.8	241.3	154.8

SOURCE: Company reports

Vietnam, Bangladesh, Indonesia and India. Annual meetings are conducted with factory managers, and factories are aided when needed. Working and environmental conditions of textile manufacturers and fabric suppliers are monitored to ensure manufacturing of the right product in a correct manner, yielding high-quality products. The Uniqlo production team and textile takumi (skilled artisans) are posted in the production bases of Shanghai, Ho Chi Minh City, Dhaka, Jakarta, Istanbul and Bengaluru for monitoring production processes, resolving quality-related issues and implement

improvements, as and when needed. Uniqlo sources high-quality materials in huge volumes to dictate low costs by directly negotiating with manufacturers worldwide. Material research and experimentation results can be seen in the functionality, feel, shapes and texture of Uniqlo clothing.

- **Sales:** Optimum inventory levels at stores are maintained by the inventory control department that monitors sales and stock on a weekly basis so as to dispatch necessary inventory and new products to fulfil orders. To sell out inventory at the end of each season, timings for price changes are worked out between the

THE ARIAKE PROJECT

The company undertook the Ariake Project (derives its name from Ariake office near Tokyo Bay), seeking apparel industry transformation into a new digital retail industry that would focus on the commercialisation of information. At its core is the desire of converting customer feedback into those impeccable product designs which customers want and not what the company wishes to sell—a situation which eliminates boundaries between clothing creators and clothing wearers.

The project involves faster planning, replacement of the monthly with a weekly production cycle, and eradication of waste by making, transporting and selling only what is necessary. Laterally, this improved accuracy in sales predictions is complemented with reduced design-production and lead (time between ordering and receiving) times which required a constant flow of primary, credible and useful information.

Driven by the need for such data, the company tied up with global information powerhouse Google in 2019 for a joint information project. Additionally, the company plans to step up new programmes in artificial intelligence and algorithms in the future. All these efforts will result in building a seamless supply chain connecting the company with partner factories, warehouses and stores worldwide.



TABLE 3 Uniqlo performance over the years (store networks)

UNIQLO store network	Feb'21	Aug'19	Aug'18	Aug'17	Aug'16	Aug'15
UNIQLO International	1,431	1,379	1,241	1,089	958	798
UNIQLO Japan	811	817	827	831	837	841
<i>Directly operated</i>	765	774	784	790	798	811
<i>Franchise stores</i>	46	43	43	41	39	30

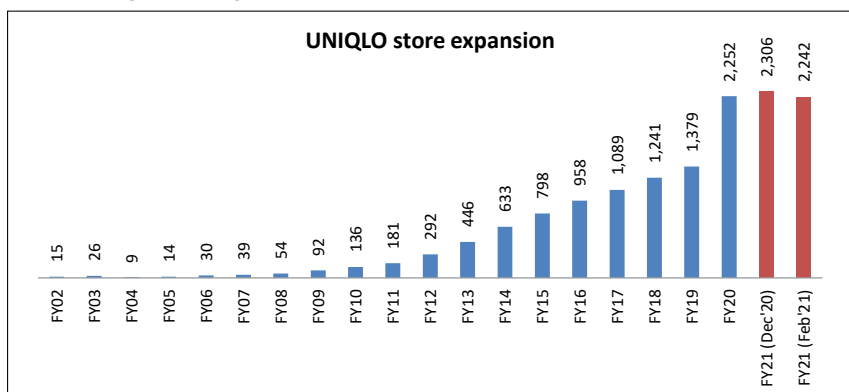
SOURCE: Company reports

TABLE 4 Uniqlo store network in India

Store type	Store	Launch	Area (sq ft)
Large	Ambience Mall, Gurgaon	Dec-20	19,000
Large	DLF Mall of India, Noida	2020-end	17,500
Large	Vegas, Dwarka	Oct-20	15,000
Large	DLF Avenue, Saket	Feb-20	21,500
Large	Ambience Mall, Vasant Kunj	Oct-19	35,000
Standard	DLF CyberHub	Nov-19	12,200

SOURCE: Internet research

FIGURE 3 Uniqlo store expansion



SOURCE: Analysis of company reports

merchandising and marketing departments. Promotional campaigns are conducted each season for core products. During the campaigns, Uniqlo advertises the products' unique qualities and noteworthy features on TV and in other media.

Overall business

Uniqlo drives Fast Retailing's business. It ended FY20 with ¥1,651 billion (~₹2,500 billion) in sales—a figure that fell short by ₹100 billion from the combined sales of the top 28 retail companies in India. Sales revenues grew at a CAGR of 3.6 per cent between FY15 and FY20 wherein its international business grew by 6.9 per cent. The operating profit declined at a CAGR of 0.7 per cent, as Japan profit declined at 2.2 per cent despite international profit registering a 3 per cent CAGR in the same period.

Retail presence

More than 80 per cent of Fast Retailing's total revenues come from Uniqlo. Business is separately monitored in Japan and the international market. In the last few years, the international market has overtaken the home market business with an increased store presence abroad. As of February 2021,

TABLE 5 Donation during COVID-19

(As of November 2020)	North America	Europe	Asia	Oceania	Total
Masks (in million)	2.2	3.61	10.41	0.5	16.72
AlRism mask	39,850	62,725	5,00,000	-	6,02,575
Isolation Gowns (in million)	-	-	1.43	-	1.43
AlRism	24,410	25,400	4,20,873	-	4,70,683
Essentials	-	18,950	5,03,563	2,000	5,24,513

SOURCE: Company reports

TABLE 6

UNIQLO Japan H1, FY21 year-on-year performance							
Same stores (719) + online sales	Sep' 20	Oct' 20	Nov' 20	Dec' 20	Jan' 21	Feb' 21	H1 (Sep'20-Feb'21)
Net sale	110.00	116.20	100.50	106.20	102.00	100.40	105.60
Customers	108.50	100.90	95.80	100.30	99.70	100.10	100.30
Average purchase	101.40	115.10	104.90	105.90	102.40	100.30	105.30
Own stores (763) + online sales	Sep' 20	Oct' 20	Nov' 20	Dec' 20	Jan' 21	Feb' 21	H1 (Sep'20-Feb'21)
Net sale	110.40	116.50	100.80	106.10	101.80	101.30	105.80
Customers	109.00	101.40	95.90	100.30	99.70	101.20	100.60
Average purchase	101.30	114.90	105.00	105.80	102.10	100.10	105.20

SOURCE: Company reports; all figures represent growth percentage over previous year's figures (taken as 100)

there were 1,431 Uniqlo international stores against 811 in Japan. Despite a lower store count, each Japan store does annual sales of ¥0.99 billion whereas an international store generates an average revenue of ¥0.71 billion. The Japan market has a strong franchising model too that has yielded an increased share of franchise stores from ~4 per cent in FY15 to ~6 per cent in FY20.

Besides Japan,

Uniqlo has a large international presence in Southeast Asia. This presence is led by Greater China comprising mainland China, Hong Kong and Taiwan. As of December 31, 2020, a total of 903 stores were operating in this market, of which mainland China hosted 802, Taiwan had 70 and Hong Kong 31 stores. According to Ning Pan, CEO of Uniqlo Greater China, the company will continue opening stores in the tier-1 cities of Beijing, Shanghai, Guangzhou and Shenzhen as well as tier-2 cities such as Hangzhou, Nanjing, Wuhan, Zhengzhou, Xi'an, Chengdu, and Chongqing where purchasing power is expected to rise.

The current ecommerce share of 20 per cent is to be expanded and so will be the expansion in online-to-offline (O2O) services integrating physical stores and the ecommerce network. In FY20, Greater China generated sales of ¥455.90 billion—54 per cent of Uniqlo's international sales. Ning Pan wants to double this performance and achieve an ambitious target of ¥1 trillion in the future.

Vietnam is an emerging market for Uniqlo. While South and Southeast





UNIQLO

Asia and Oceania markets reported a business decline in FY20 due to COVID-19, Vietnam turned profits in H2, FY20 (March-August). The country is also being deliberated as a potential production base for Uniqlo. Other markets outside Asia having significant Uniqlo presence including the US, Russia, Australia and France.

Uniqlo India

Uniqlo India Private Limited operates Uniqlo within Indian boundaries. As of February 2021, there were six Uniqlo stores operating in India. The debut store at Ambience Mall in New Delhi which opened in October 2019 is the largest store having a retail area of 35,000 sq ft across three floors. In the first phase, Uniqlo opened all stores in the NCR comprising Delhi, Gurugram and Noida with Mumbai being the next stopover. Uniqlo India posted a net loss of ₹64 crore with sales of ₹129 crore during FY20.

Store expansion

From 15 stores in 2002, Uniqlo today operates a network of 2,200 stores across the world. Twenty years after Uniqlo opened its first overseas store in London, its international count stands 1.76 times higher than the Japan store

count. Overall, Uniqlo stores have expanded at a CAGR of 32 per cent in the last 20 years. In more recent years—between 2015 and 2020—the Japan store count has declined from 841 to 811 whereas international stores have expanded at a CAGR of 12.5 per cent, from 798 to 1,439. Store expansion in FY20 was even more aggressive with 873 new stores added to the tally of 1,379 in FY19.

The pandemic times

The COVID-19 phase was at its worst across the globe during March-July 2020, with a series of lockdowns and increasing cases of virus infection. Fashion was among the major casualties. However, Uniqlo Japan sales recovered a little earlier from mid-May 2020 with clothing demand in the pandemic shifting toward casualwear, loungewear and sport utilitywear. Uniqlo operations in North America and Europe were hit hardest by COVID-19, resulting in a poor overall performance in FY20. Nevertheless, online sales expanded rapidly. Greater China revenues and profits too declined in FY20 due to COVID-19, but the market recovered strongly after the controlling of the pandemic. Mainland China sales, constituting a large portion of Uniqlo

Rather than pumping out masses of clothing for immediate consumption to be quickly discarded for the next week's or next season's styles, Uniqlo specialises in the basics that have a seasonless appeal. This is why one-third of Uniqlo items are available for 6–9 months—a clear departure from normal fast-fashion methods.

International sales, recovered at a faster than expected pace from March 2020 after COVID-19 was brought under control. Uniqlo South, Southeast Asia & Oceania including India and Australia also reported large revenue and profit declines in FY20.

Meanwhile in India

When the world was facing a COVID-19 peak in July 2020, Fast Retailing and Uniqlo were combating the pandemic in India in their own way. Over 200,000 masks were donated to frontline workers and high-priority medical facilities. Uniqlo India donated 2,000 units of AIRism innerwear to hospitals and police departments. It partnered with Sustainable Environment and Ecological Development Society (SEEDS) to deliver AIRism innerwear products—made with self-deodorising and stretchy material using comfort conditioning technology, and masks to Lal Bahadur Shastri Hospital in New Delhi, Civil Hospital in Gurugram and to the police personnel in Delhi. Uniqlo India worked with Invest India to supply masks, donated by Fast Retailing to the East Delhi Municipal Corporation and Haryana Medical Services Corporation. Later in October 2020, AIRism face masks were officially launched in India.

More than 80 per cent of Fast Retailing's total revenues come from Uniqlo. Business is separately monitored in Japan and the international market. In the last few years, the international market has overtaken the home market business with an increased store presence abroad.



UNIQLO



Uniqlo began its FY21 in September 2020. In October 2020, it celebrated the first anniversary of its India entry by announcing the opening of two new stores—one the same month and the other by year-end. By October-end, the brand officially launched its nationwide 'shop from home' (home delivery) service through its special website online.uniqlo.in—announced as an interim solution—to swiftly deliver Uniqlo products to customers' doorsteps. This was a calibrated move in times of cautious mobility affecting footfall in stores to make Uniqlo products accessible to customers across 17,000 pin codes in India. India thus joined the first few markets to get home deliveries within a year of its market debut.

Listening customers

The Uniqlo customer centre keeps receiving huge volumes of requests and comments from customers which are utilised to improve ranges and developing new products. During COVID-19, people staying at home shared the need for relaxed loungewear and good-quality comfortable clothing that would last even after repeated washing. This feedback led to the development of various casualwear items. Another example of customer

suggested product was Uniqlo's front-opening innerwear that do not require to be pulled on and off over the head by people with limited mobility or in nursing care. Uniqlo brought this front-opening innerwear to retail.

AIRism face masks made with material used to make Uniqlo innerwear were also developed based on customer request. Uniqlo used its technology to create a highly functional mask that is gentle on the skin. The brand's StyleHint app is another medium to stay in touch with customers and help them shop. The app helps customers access up-to-minute information on their phones, see clothing combinations firsthand and purchase the products they want immediately, on online and offline channels.

Clear positioning

Uniqlo stresses on quality unlike its rivals who largely rely on quantities to be identified as fast fashion. The brand avoids being in the segment and instead claims to provide clothing for everyone. Rather than pumping out masses of clothing for immediate consumption to be quickly discarded for the next week's or next season's styles, Uniqlo specialises in the basics that have a season-less appeal. This is why one-third of Uniqlo items are available for 6–9 months—a clear departure from normal



People gathering at the opening of the first Uniqlo store in Vietnam, Uniqlo Dong Khoi at Ho Chi Minh City. Uniqlo's forte is comfortable and easy-to-wear basics that spiked during the pandemic because of changes people made in their clothing choices.

fast-fashion methods. With stretched fashion expiry and longevity, the brand is able to keep its sustainability promise.

Product mix

Uniqlo's forte is comfortable and easy-to-wear basics that spiked during the pandemic because of changes people made in their clothing choices. The results have motivated Uniqlo to continue with comfort styling even when things get normalised. To make for easy mix and match, nearly 90 per cent of the items listed on Uniqlo's websites are plain with almost negligible variations in pattern. However, to spice up its basic fashion it forms licensed collaborations (such as with +J brand). It also featured artwork by Andy Warhol, Disney, street artist Keith Haring and the Louvre. Alongside, it lays emphasis on underwear, hosiery, accessories and wardrobe essentials that need replacing more often than outerwear and denim. The need to repeat such purchases drives traffic to stores and websites.

Sustainability measures

Since Fast Retailing owns the entire cloth making-to-retailing process, it is under the constant scrutiny of judging customers, public and society, especially in terms of socio-environmental responsibilities. With growing focus

on products embracing the circular economy, apparel is also required to use resources that serve as clothing materials more effectively. In the SS20 season, the company started DRY-EX polo shirts that use polyester—developed by strategic partner Toray Ind—recycled from used plastic bottles. Roger Federer, its global brand ambassador, wears them at his tennis matches. Under the RE.Uniqlo initiative, customers donate used clothes which are either recycled into new garments or donated to refugees and displaced persons through the All-Product Recycling Initiative.

Helped by Toray's automated machine, a large volume of new down jackets was produced, using recycled feathers from used down products for FW20 season. This reduced unnecessary waste and cut down CO₂ emissions. By February 2020, approximately 620,000 used down products were collected for recycling. However, the circular production efforts involve high manufacturing costs, difficulties with mass production and maintaining a high level of quality. All of these were managed diligently by the company to stay committed to its sustainability goals.

Outlook ahead

The lifestyle changes brought about by COVID-19 made customers adopt

ecommerce as the most convenient shopping method. This ignited Fast Retailing plans to expand its ecommerce business. The plan is to unify offline and online channels; strengthen and expand ecommerce business; and, increase synergies between stores and ecommerce in individual markets, even if it means investing in and securing the required human resources. The plan also involves setting up its own distribution centres and automated warehouses to service online customers over far and wide geographies.

This has begun with its warehouse at Ariake and the West Japan EC warehouse. The warehouses, holding pooled inventories of ecommerce and stores, prevent product shortages as unified inventory can be utilised to service orders received through both channels. A system like this has already been established in mainland China to be followed in the US and Australia.

More 'click and collect' services for customers are to be provided. A framework is being created to quickly order additional products of strong-selling items based on online sales information and to swiftly develop new products that successfully anticipate changing customer needs. The building of new business models that fuse physical store and ecommerce operations will continue to drive growth.**FF**