The UNIQLO Business

Fashionable and high-quality clothes that anyone can wear anywhere, any time—that’s what UNIQLO is all about. Our global operating systems weave together all processes from product design to final sales, including global R&D, procurement of world-class quality materials, production focused in China, and the operation of 750 stores around the globe. This seamless system allows UNIQLO to consistently offer its customers high-quality products at reasonable prices.
The UNIQLO Business

Market Environment
In the Japanese economy over the past year, corporate profitability and consumer confidence have improved, but expenditures on apparel have remained sluggish. According to government surveys, consumption expenditures per household for the one-year period to August 2006 were 1.6% lower than for the previous year, while expenditures on apparel were 2.8% below those of the previous year. The retail apparel market, which was estimated at ¥10 trillion in size in 2000 by the Japan Apparel Industry Association, appears to be on a declining trend because the percentage of income spent on apparel is dropping and the population is beginning to decline.

Although domestic demand, mainly for heavier apparel, expanded during the autumn/winter season of 2005, owing to the positive impact of colder weather, climate conditions were less favorable during the spring/summer season of 2006, thus leading to slower apparel expenditures. On the other hand, examination of the performance of apparel specialty stores nationwide shows that many companies ranking high in terms of sales have been able to improve their performance. As these companies have aggressively expanded their store networks, the intensely competitive “survival of the fittest” conditions continue to prevail.

Overseas, while the markets in industrialized areas—such as the United States, Europe, and Japan—are still large, rates of growth in the United States and the Asia-Pacific region are rising.

Store Location/Format and Product Development
UNIQLO opened its first store in 1984. Thereafter, it has established its SPA model, which integrates product design, production, distribution, and sales. By offering high-quality casual wear at unbeatably attractive prices through standardized roadside stores, UNIQLO attained significant growth in the 1990s. Especially from 1998 onward, UNIQLO posted substantial gains, partly because of the boom in fleece products. However, the reaction to this boom thereafter led to declines in net sales and income for the years ended August 31, 2002 and 2003, but sales and income staged a comeback beginning in the year ended August 2004. Since then, sales have increased along with UNIQLO’s aggressive “scrap-and-build” strategy aimed at extending its store network.

Today, with more than 730 stores in Japan and increasingly more intense competition, further growth requires UNIQLO to identify and meet new customer needs by opening stores in other types of locations and formats than its standardized suburban stores and offer an even more attractive lineup of products in addition to basic items.

Regarding store locations and formats, along with standardized suburban roadside stores, UNIQLO is opening stores in diverse locations and formats to match customer requirements. The Ginza store in Tokyo, inaugurated in October 2005, has attained a high level of profit margins, although it is on an urban roadside, thus demonstrating that there are more possibilities for UNIQLO stores in new types of locations and formats. Going forward, UNIQLO has positioned larger stores as its growth driver and plans to accelerate the opening of such stores.

In product development, in autumn 2005, UNIQLO introduced its global R&D with offices in Tokyo, New York, Paris, and Milan. These offices gather information on product trends and market needs, design products, and take new products to the commercialization stage by coordinating UNIQLO’s international supply chain. These activities enable UNIQLO to offer highly fashion-conscious products up to global standards.

Overseas Development
UNIQLO also believes that aggressive development of an international store network is another key to growth. Following the opening of stores in the United Kingdom in 2001, China in 2002, and the United States, South Korea, and Hong Kong in September 2005, UNIQLO opened its first global flagship store, with about 3,300 square meters of sales space in New York’s Soho district in November 2006, thus taking UNIQLO one step further toward a global brand.

Overview of the UNIQLO Business
In Japan’s highly competitive retail market, UNIQLO has positioned large-format stores as its growth driver and is accelerating their opening. Overseas, UNIQLO is carrying on its campaign to become a global brand and opened its first flagship store in New York’s Soho district in 2006.
UNIQLO’s Store Opening Strategy

UNIQLO is developing stores in new types of locations and formats and has begun to implement plans to accelerate the opening of large-format stores. In parallel, UNIQLO is also working to improve all aspects of its operations from products and sales floor presentations to customer service.

Outline of the Store Opening Strategy
UNIQLO has positioned the further development of its store network, by both locations and formats, as a key element in its “business structure transformation.” Beginning in autumn 2005, UNIQLO started to develop not only standardized stores with about 700 square meters of floor space but also large-format stores with about 1,600 square meters of floor space and smaller stores in ekina/ekichika, or locations in and in the vicinity of public transportation stations.

Accordingly, UNIQLO has opened seven new large stores (as of August 2006) in different types of locations, including urban roadside, suburban shopping centers, commercial facilities, and roadside locations. The product lineup of these large-format stores is not yet fully launched, but all of these stores exceeded their sales and profit targets for the year ended August 31, 2006. Because of this encouraging performance, UNIQLO plans to accelerate the opening of large-format stores. UNIQLO is scheduled to add 20 large-format stores during the year ending August 2007, but then raise the pace in fiscal 2008 and onward, with plans to add 40 such stores annually. As a result of adding mainly large-format stores to the network, these stores will account for about one-third of total UNIQLO retail floor area in 2010.

Among smaller stores, UNIQLO has thus far created 14 stores (as of November 2006) in different types of locations, including urban roadside, suburban shopping centers, commercial facilities, and roadside locations. The product lineup of these large-format stores is not yet fully launched, but all of these stores exceeded their sales and profit targets for the year ended August 31, 2006. Because of this encouraging performance, UNIQLO plans to accelerate the opening of large-format stores. UNIQLO is scheduled to add 20 large-format stores during the year ending August 2007, but then raise the pace in fiscal 2008 and onward, with plans to add 40 such stores annually. As a result of adding mainly large-format stores to the network, these stores will account for about one-third of total UNIQLO retail floor area in 2010.

Why Large-Format Stores?
One of the reasons why UNIQLO is shifting to larger sales floor space is that developing products suited for sales in these more spacious stores will enable us to expand our customer base. Broadening the merchandise mix will have the following advantages: Since customers will have a choice of more fashion-conscious merchandise (not limited to our basic items), we can encourage more potential customers to shop in UNIQLO. Also, the expanded sales space of larger stores will enable us to offer a broader range of merchandise for women. Although UNIQLO’s share of the women’s apparel market is relatively small at present, the women’s market is projected to be roughly twice the size of the men’s market, thus implying an opportunity for UNIQLO to expand sales of our women’s wear. Furthermore, if the sales space is expanded, UNIQLO will be able to encourage customers to buy more easily coordinated items through visual merchandising. By creating new, attractive sales areas, UNIQLO aims to give its customers a more enjoyable shopping environment and experience.

Patterns for Large-Format Store Openings
To steadily increase the number of its large-format stores, UNIQLO envisions a range of store-opening patterns. One of these is opening tenant stores inside shopping centers. Examples include the Diamond City Carat store, which UNIQLO opened when a major shopping center was undergoing renovation, and the Lazona Kawasaki store, which UNIQLO opened in a newly developed commercial facility. UNIQLO also intends to continue to open large-format stores on urban roadsides, similar to its Ginza store in Tokyo and the Shinsaibashi store in Osaka. Along with these initiatives, UNIQLO is also working to develop relationships with different types of retailers, including home centers and appliance discount stores. From autumn through winter 2006, UNIQLO opened its Homes Kasai store (a store within a home center) and the Yodobashi Umeda store (a store in an appliance discount store) in Osaka. Going forward, UNIQLO plans to accelerate the opening of roadside stores, such as the Kasugai store.

In November 2006, UNIQLO signed a business cooperation agreement for the development of large-format roadside stores having about 1,600 square meters of sales floor space with Daiwa House Industry Co., Ltd. Through joint development activities with this company, UNIQLO aims to move forward with the opening of large-format roadside stores in a short period.
The UNIQLO Business

UNIQLO’s Overseas Strategy
The basis for brand recognition lies in the retail stores. We are showcasing the very best of UNIQLO and further establishing it as a global brand through our flagship strategy.

Overseas Operations to Date
UNIQLO’s entry into overseas markets began with the opening of a store in London, in September 2001, and in Shanghai, in September 2002, which was followed by the commencement of store operations in the United States, Hong Kong, and South Korea in autumn 2005. As of August 31, 2006, UNIQLO had 30 stores in overseas markets, and its annual overseas sales were ¥8.7 billion. By August 31, 2007, however, overseas sales are expected to rise to about ¥16 billion annually, through a total of 42 overseas stores.

When UNIQLO set up its London store, it was implementing an aggressive strategy calling for opening 50 overseas stores in three years, but due to the lack of a solid sales outlook, UNIQLO scaled back the plan, reducing the network of 21 that had already gone into operation to 6. In Shanghai also, UNIQLO adopted a “scrap-and-build” approach to add to its overseas experience. In autumn 2005, UNIQLO entered the United States, Hong Kong, and South Korea in retail venues it deemed best suited to the market. UNIQLO opened three stores in suburban shopping centers in the United States, then one large-format store in Hong Kong, and four stores in South Korea in partnership with the Lotte Shopping Co., Ltd. As a consequence, the Hong Kong store succeeded in exceeding annual sales of over ¥1 billion and has become the model for UNIQLO’s entry into overseas markets. Factors contributing to the Hong Kong store’s success were its large sales floor area of nearly 1,000 square meters and a wide selection of merchandise, combined with an active, broadly based publicity campaign accompanying the opening of the store as well as relatively wide brand recognition in that market.

Transition to a “Flagship Store” Strategy
With the Hong Kong store as a success model, UNIQLO has reviewed and honed its strategy for overseas expansion. Drawing on the lessons learned thus far that the most important success factors are raising the awareness of the UNIQLO brand in the host market and that the basis for brand awareness is retail stores, UNIQLO decided to launch a “global flagship store.”

On November 10, 2006, UNIQLO opened a global flagship store in the Soho district of New York, with sales floor area of 3,300 square meters. If this New York Soho store can promote an understanding of UNIQLO among potential customers around the world, this should bring success not only in the United States but also in Europe and other parts of the world while also raising the value of the UNIQLO brand in Japan. At the same time, the success of the global flagship store is extremely important, because it will encourage even more capable individuals to join UNIQLO and play key roles in its overseas operations.

Since opening, the Soho store has performed as expected. The store has been covered extensively in the media, raising the awareness of UNIQLO in the United States. The Soho store is located right on Broadway, New York’s best-known fashionable district, and is therefore not only well positioned to showcase the best products, shop floor, and service that UNIQLO can create but also transmit the latest in Japanese culture centered around the concept “From Tokyo to New York.”

As a next step for the flagship store strategy overseas, UNIQLO opened a large-format store with about 2,300 square meters of floor space, on December 7, 2006, in a shopping mall in Shanghai’s Pudong district. The Shanghai store also aims to give customers in Shanghai a clear impression of “UNIQLO’s good quality and reasonable prices.” Going forward, UNIQLO plans to open flagship stores in London, Paris, and the other major cities in Europe and position UNIQLO as a global brand.

We believe that if UNIQLO becomes a truly global brand, it will become an even stronger brand in Japan.
New York Soho store
UNIQLO's Global R&D
Items with more fashion developed by our new global R&D began to appear in our stores during the autumn/winter season of 2006. UNIQLO’s global R&D builds on its main-strength—basic, high-quality clothes—to offer stylish, coordinated lines.

Global R&D Centers on Line
To develop as a global brand, UNIQLO reviewed its product development system and, in Autumn 2005, started up a global R&D capability with operating bases in Tokyo, New York, Paris, and Milan. Through this new global R&D, UNIQLO is able to draw on the talents of top-quality personnel worldwide and develop merchandise that meets high global standards. The first products developed by these R&D centers were placed on UNIQLO store shelves in Autumn 2006. This has strengthened the lineup of fashionable UNIQLO merchandise and enabled stores to offer customers a new level of style. For example, one successful coordinate offered products and enabled its stores to offer customers a new level of style. For example, one successful coordinate offered...
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UNIQLO regards its apparel subcontractors as its partners and provides them with cutting-edge technology through its "takumi" team. A network of 50 companies it calls on for production manages this system from the design stage to final processing. UNIQLO keeps the 50 subcontractors on board for more than 20 years of experience in Japan's textile industry. This team is responsible for the overall operation of all aspects of plant management and operation—from spinning to knitting, weaving, dying, finishing, cutting, sewing, and labeling—well as for transmitting the takumi team's skills to the plants. The takumi team becomes involved in the production process from the design stage and does not stop at providing technical guidance but also offer support for process management, training, and other aspects of operations.

Materials Development with Leading Denim Manufacturer Kaihara Corporation

UNIQLO had the first opportunity to work with Kaihara Corporation, one of the world's leading manufacturers of denim, in 1998 when UNIQLO opened its first urban center store in the trendy Harajuku district of Tokyo. Around this time, UNIQLO had compiled business plans that had been transferred into an SPC-capable system in order to integrate the manufacturing and sales of its own original brands. UNIQLO was just beginning to expand its store network into focus, focusing on the marketing of materials designed to meet the needs of individual consumers. UNIQLO has since developed original materials for various seasons and the need for the highest degree of technical support. For example, UNIQLO has formed a strategic partnership with Toray Industries, Inc., and provides a medium for promotional campaigns aimed at inviting more customers to UNIQLO stores. UNIQLO also provides the latest information on UNIQLO stores and other related topics as well as offer a medium for promotional campaigns aimed at inviting more customers to UNIQLO stores.

UNIQLO's Merchandise

UNIQLO sets its sights on a wide range of styles. The top screen directs viewers to the UNIQLO website, UNIQLO.com (http://www.uniqlo.com), their world merchandise site. The site offers more than 200 of the latest merchandise items in the style of the season at all times. The search function allows customers to check on items both according to style and type of fabric. Through UNIQLO's online site (http://www.uniqlo.com.cn) on a growth trend, UNIQLO's merchandise now provides the latest information on various styles and includes the search function for promotional campaigns. The site then directs visitors to UNIQLO's Web Marketing, The UNIQLO Business through the use of fine products. Based on the partnership agreement, UNIQLO and Toray have worked together to develop new core concepts and directions for development—"beauty and health," "super fabric," "function and comfort," and "new concept," and identified seven themes for consideration to provide specific guidance for the development of new materials. Moreover, UNIQLO and Toray are exchanging personnel to gain greater understanding of the latest trends and activities. Through these medium- to long-term initiatives, plan to call on Toray to supply UNIQLO with more than ¥100 billion in materials and products on a cumulative basis during the five years to 2010. This will be a level of demand that is far beyond the world's textile industry.

UNIQLO's Production

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UNIQLO has worked with Kaihara to develop new denim materials. One example is a "Kaihara Original Basic Jeans," a fabric for men's pants with high-quality material, which was introduced in 1999. In 2000, UNIQLO launched "Kaihara Jeans," a product with a wide range of styles and quality, and UNIQLO calls on Kaihara to develop new denim materials. In 2001, UNIQLO launched "Bingo splashed-pattern material," a fabric for creating "new concepts" and "new directions" for development—namely, "beauty and health," "super fabric," "function and comfort," and "new concept," and identified seven themes for consideration to provide specific guidance for the development of new materials. Moreover, UNIQLO and Toray are exchanging personnel to gain greater understanding of the latest trends and activities. Through these medium- to long-term initiatives, plan to call on Toray to supply UNIQLO with more than ¥100 billion in materials and products on a cumulative basis during the five years to 2010. This will be a level of demand that is far beyond the world's textile industry.

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UNIQLO as Information Epicenter

In addition to offering apparel inspired by newly discovered concepts that match the trends, needs, and lifestyles of the times, UNIQLO seeks to serve as a source of new images and ideas.

**Topic 1  2006 UNIQLO Corporate Collaboration T-Shirts**

In April 2006, UNIQLO introduced a new merchandise line entitled “2006 UNIQLO Corporate Collaboration T-Shirts” displaying graphics of corporate logo marks and other images. This was part of the UNIQLO T-Shirt Project that UNIQLO conducted under the theme of “More than just a T-Shirt.”

In 2006, the fourth year of this project, 103 companies participated and 127 designs were prepared based on the products and services of participating companies, including enterprises with operations around the world as well as traditional Japanese companies.

**Topic 2  Designers Invitation Project**

In autumn 2006, UNIQLO introduced its Designers Invitation Project for the first time. Seven up-and-coming designer groups that show their collections in Paris, Tokyo, and elsewhere were invited to have their collections commercialized by UNIQLO. Between 8 and 11 items were chosen from each designer’s collection, and the items were coordinated to achieve a total look. Beginning in spring 2007, New York designers will also participate in this project.

**Topic 3  Classic Concert Held to Coincide with the Chino & Cargo Pants Campaign**

On March 2, 2006, in collaboration with the Tokyo Metropolitan Symphony Orchestra, UNIQLO sponsored a concert entitled “Classic Meets Casual.” Wearing white cargo pants, the orchestra performed rondos and other compositions that everyone could enjoy. The aim of the concert was to suggest that classical music could be played and enjoyed more casually, and to introduce Chino and Cargo pants, a core product lineup that UNIQLO has introduced to follow denim pants.