UNIQLO Operations

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 790 stores around the globe. This seamless system allows UNIQLO to consistently offer its customers high-quality products at reasonable prices.
To a New Stage: “Clothes that Make News”

Most of our customers already have plenty of clothes. For them to purchase new clothes, there must be some new value added in design and/or function; we could call them “clothes with some new value.” To communicate the true value of our products to customers, we have to change all aspects of the shopping experience, including store design, the sales floor, lineup of products, and our service.

Our large-format store strategy is part of this change and a process for taking UNIQLO to a new stage. In our large-format stores, it is important for us to raise the skills of each staff member to provide customer services that enhance the display and raise the level of customer satisfaction. We aim to communicate the features of our products, offer new products each season, and help our customers make their daily lives more comfortable. The growth driver for UNIQLO is to continue to offer that something new that customers are looking for.

Large-Format Store Strategy on Track

In fiscal 2007, consumer spending was sluggish while competition grew more intense. With the warmest winter on record and unseasonal spring and summer weather, UNIQLO Japan experienced a profit decline.

To continue to grow in this market environment, there are limitations on the strategy we have implemented thus far of selling basic apparel items through standard-format stores in the suburbs with between 700 square meters and 800 square meters of sales floor space. That is why UNIQLO has positioned large-format stores as its growth driver.

Under this large-format strategy, UNIQLO is opening stores in different types of locations, including urban street sides, suburban shopping centers, commercial facilities, and roadsides. At the end of August 2007, we had 28 large-format stores, and, in fiscal 2008, we are picking up the pace of openings of these large-format stores. In fiscal 2007, we opened megastores with about 3,300 square meters of sales floor space in Kobe’s Harborland and in Tokyo’s Setagaya Chitosedai district. Both of these have drawn strong customer interest.

Looking ahead, we will be working to increase the efficiency of these stores by optimizing the right lineup of products to take the best advantage of the strengths of these larger stores, while standardizing our customer service and store management.

Growth through Responding to Women’s Needs

Women’s apparel accounts for about 70% of the sales of the fashion apparel industry as a whole, but women’s items account for only about 40% of UNIQLO’s sales. We believe UNIQLO has considerable potential to increase sales of women’s clothing and look to higher growth in sales by responding to women’s apparel needs.

In fiscal 2007, we scored with skinny jeans, which became a great success, and were able to expand our share in the women’s jeans market. Customers who bought skinny jeans are increasingly coming back to UNIQLO to buy another pair of jeans. We want to take advantage of the visits of new customers to our stores by expanding the lineup of new kinds of products that are more fashionable and not just offering basic items.

Under our large-format store strategy, we have more sales floor space and can put more emphasis on offering coordinated items through improved visual merchandising. We will display new and attractive women’s apparel items in ways that are easy for customers to view and purchase. In large-format stores, we can display a wider range of goods and offer customers a much more enjoyable shopping experience.
Advancing to Win in the World’s Fashion Capital

UNIQLO products are world class quality-wise. What they need next is just brand power. When the UNIQLO brand becomes widely known around the world, I believe there is a good chance of expanding our share of world markets.

In November 2007, we opened a global flagship store, the 311 Oxford Street store, with sales floor space of about 2,300 square meters, located on London’s Oxford Street. At the same time, we opened another store, the 170 Oxford Street store, with about 1,300 square meters of sales floor space. We chose these locations because this area is the fashion capital for casual wear, where the world’s leading brands compete for customer attention. By joining the lineup of fashion brands in Europe’s largest shopping area, we aim to increase the awareness of the UNIQLO brand and raise its appeal, its presentation, and its attractiveness. Once anyone tries on UNIQLO clothes, they will understand their value. Making our flagship stores in Europe a success after succeeding with our U.S. flagship store will open the way for UNIQLO to become No.1 in the world in the apparel industry.

Growth in International Operations Accelerates

The world apparel market is said to be about ¥100 trillion in size annually, but UNIQLO’s share at present is only 0.4%. Even though the world market is becoming more competitive, we believe that it is an attractive stage for our business, with considerable growth potential.

The lesson we have learned from our entry into overseas markets, which began with the opening of a store in London in September 2001, is that “the basis of brand awareness is the store.” That is why we are confident that the most effective strategy is the opening of global flagship stores in major countries.

At present, UNIQLO is developing its overseas activities in the United Kingdom; the United States; mainland China, including Hong Kong; Korea; and France. In fiscal 2007, UNIQLO’s overseas sales totaled ¥16.9 billion, about twice the ¥8.7 billion reported in fiscal 2006.

The stages of growth and development vary from country to country and strategies also differ. However, by drawing on the know-how accumulated thus far, we are working to optimize our operations. Going forward, we plan to accelerate the opening of UNIQLO stores overseas and consolidate our foothold as a global brand.

Opening Global Flagship Stores

We opened our first flagship store in November 2006 in New York’s Soho district, where the world’s top brands have gathered to display their fashions. With sales floor space of about 3,300 square meters, the Soho New York store has raised the awareness of the UNIQLO brand.

In November 2007, we opened another global flagship store in London’s Oxford Street area, which is one of Europe’s leading shopping areas. Then in December 2007, we opened our first store in France, a concept shop, situated in La Defense, outer Paris. We are also making plans to open a global flagship store in the center of Paris. These stores have the role of communicating UNIQLO’s top-level creativity to the fashion centers of the Americas and Europe and to the rest of the world.

In Asia, where demand for apparel is growing at an impressive pace, we opened our first large-format store, with about 2,300 square meters of sales floor space, successfully in China in December 2006—the Shanghai Zengda store. In fiscal 2008, we have plans for further store openings, including a large-format store in Beijing and new stores in Hong Kong.

In Korea, we opened a large-format store, with 2,300 square meters of sales floor space in the Myongdong district of Seoul in December 2007, and we are moving forward with plans for opening additional stores in Seoul.
UNIQLO’s Business Model

UNIQLO is an SPA (Specialty Store Retailer of Private Label Apparel), meaning its activities are fully integrated from product design through production and retail. To offer high-quality products at low prices, UNIQLO backed by its sales network of approximately 770 stores worldwide, controls all stages of the business, from production to the procurement of materials, quality control, inventory adjustments, and other aspects — and insists on low-cost management. In addition, UNIQLO takes 100% of the raw materials and inventory risks. This is exactly the reason why UNIQLO can differentiate itself from competitors and generate profits.

UNIQLO talks to about 70 partner factories located in China and the rest of Asia for production and provides them with precise technical support. UNIQLO has formed a team of specialists called takumi, each with experience of 100 or more years in their respective fields. The takumi are directly involved in all aspects of the production processes from inspection of yarn to the shipment of final goods, and they keep a close eye on a wide range of things, including materials and yarn, sewing patterns, dyeing, washing, finishing, fabric, and sales issues.

UNIQLO’s products are manufactured in large lots of about 5 million at partner factories. UNIQLO ensures high quality for such a large volume of products by using several control methods. These methods are based on the idea that the skills of the takumi are a major contribution. For example, in the dyeing process, to ensure that colors produced by tens of vats of dye are uniform, the takumi survey the production run and stop the confirmation of the process to check on the humidity and setting conditions accurately.

At present, about 90% of UNIQLO’s products are manufactured in China. UNIQLO’s retail network is extended around the world, and the production network is being extended to other countries in Asia, including Vietnam. Staying forward, UNIQLO will insist on quality and production process controls.

Research

Merchandising

Design

Production

Retail

Coordination

Quality and Production Controls

At UNIQLO, Shanghai office, about 120 members of staff are in charge of production supervision, production supervisor, and production director. From material supply to the management of the partner factories and the UNIQLO head office, to ensure the completion of the production process, the staff undertakes various functions so that they can conduct the quality and safety control. The takumi of these functions are closely involved in all aspects of the production processes. UNIQLO is using the takumi to provide quality and production process control.

Although existing processes are automated, they still cannot guarantee uniform quality. UNIQLO’s takumi must always examine products by hand. Moreover, the takumi continually work to identify new ways to improve even the smallest details. Whether it is in the dyeing process, to ensure that colors produced by tens of vats of dye are uniform, or in the sewing process, to control the consistency in the stitches, the takumi work exhaustively to ensure the highest standard.

* For more about quality and safety control, please see page 39.

UNIQLO’s Takumi Team

Since 2005, UNIQLO’s takumi team, consisting of veteran production engineers, has been actively working to improve the quality and production processes. In their roles, these takumi are directly involved in all aspects of the production processes from inspection of yarn to the shipment of final goods. The takumi are not just checking on the final products, but they are directly involved in the ongoing production process. The takumi ensure that the quality of UNIQLO products is uniform by monitoring the raw materials, the quality control at the supplier, and the uniformity of the final production. In this way, the takumi ensure that the quality of UNIQLO products is uniform at every stage of the production process.

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Creating Clothes with Style

To this day, there are still situations where clothes are not something we put on but something that pulls us up. UNIQLO’s role is to offer clothes customers want to wear now in the way they feel comfortable. In other words, we want to keep offering clothes that our customers feel they must have in their wardrobes.

In the past, UNIQLO was becoming an established brand. Our goal is to have UNIQLO become an established presence in each apparel category. When customers think of customers, they think of UNIQLO, and the same for T-shirts.

Have asked our R&D staff members to develop clothing that take account of coordination and styling. Our apparel offerings now are predominately items that look attractive when worn, rather than just being appealing when displayed in stores. I believe that, when all of our stores are able to suggest exactly the right styling, UNIQLO’s apparel will shine even brighter.

Recognizing UNIQLO’s Core Competency

As we worked to develop our international operations, we recognized that UNIQLO’s strengths in creating basic casual clothes. Along with the development of products linked to trends and latent customer needs, it is necessary each season to evolve our basic items, which are UNIQLO’s core competency. Even with standard items, we insist on previewing on reviewing and working on materials and details to breathe new life into each and every item.

In addition, to continue to grow in Japan and establish a brand that appeals to customers around the world, standard items are increasingly necessary in each category—excluding cut and-sewn, outerwear, knit, and innerwear—up to the peaks.

That is why developing merchandise that customers can only find at UNIQLO is important. Thus, UNIQLO manages its product composition and volume with the objective of having the optimal number of products in terms of color and size. UNIQLO’s campaigns aimed at selling products selected for the season, are successful in that UNIQLO distributes items in large-scale sales or to attract customers by discounting featured products for limited periods. These limited period discounts aimed at sales promotion, and after the end of the promotional period, prices go back to their original levels.

UNIQLO’s principal expenses include wages, rent, and advertising costs. Wages consist mainly of salaries paid to store personnel, but, as a result of intense competition, wages are used differently. The ratio of profit to sales is relatively low because about 40% of UNIQLO’s items are based on simulation, and about 10% are used differently. The ratio of profit to sales is relatively low because about 40% of UNIQLO’s items are based on simulation, and about 10% are used differently.
UNIQLO to Offer “What Everyone Always Wanted”

Topic 1: World Designers Meet 100% Cashmere

Focusing the World’s Creative Talent on UNIQLO Cashmere

UNIQLO is marking the fifth year since introducing its Cashmere Series. For the autumn and winter seasons of 2007, UNIQLO added some new touches to the luxury feel of its cashmere materials by focusing the world’s creative talent to offer an even more refined cashmere style. UNIQLO brought together the full forces of its global R&D Center designers, then added items created in collaboration with some of the world’s leading designers, including Adam Jones, Lutz and Patmos, and Keita Maruyama, to fully renew the image of the UNIQLO cashmere lineup—and create a buzz heard around the world.

Topic 2: HOTELS HOMES

A New Brand to Satisfy the Desire for Hotel-Style Amenity at Home

HOTELS HOMES is a new brand of home products, including towels, bed sheets, and shampoo, that only UNIQLO could create because of its unyielding insistence on quality in materials. The theme of the new brand series is “offering hotel quality,” and the HOTELS HOMES ensemble features body-care items made from natural oils without any additives, bed sheets and towels soft and gentle to the touch created from the best-quality materials, and other amenities. As we offer items essential for daily life, we are looking forward to growth of the new brand line.

Topic 3: stylish white

UNIQLO and TORAY Develop Pants That Captivate Women’s Hearts

Women often say they want “summer bottoms that are comfortable but also discreetly opaque.” UNIQLO has responded by creating its “stylish white” line of women’s pants. The stylish white bottoms, co-developed with TORAY in spring 2007 to respond to women’s needs, are made of polyester yarn infused with a high-density ceramic material, then woven into fabric using a fine crimping process that yields a material that is virtually opaque and difficult to see through from the outside.