Fashionable and high-quality clothes that anyone can wear anywhere, anytime—that is 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 approximately 810 stores around the globe. This seamless system allows UNIQLO to consistently offer its customers high-quality products at reasonable prices.
UNIQLO’s Fabrics

Searching through the World

UNIQLO’s apparel making begins with a search for the best fabrics in the world. As a result of a highly selective and thorough search involving careful consideration of all stages of the manufacturing process, from the regions to source raw materials to the fabric mill, UNIQLO is able to offer top-quality standard products.

UNIQLO’s merino sweaters, which were featured in the fall and winter campaigns of 2008, are crafted from extra-fine merino, a pinnacle of excellence among the world’s best wools.
UNIQLO’s Business Model

UNIQLO is an SPA (Specialty Store Retailer of Private Label Apparel), meaning its activities are fully integrated from design through production and retailing. To offer high-quality products at low prices, UNIQLO, backed by its sales network of approximately 810 stores worldwide, controls all stages of the supply process—from product design to the procurement of materials, quality control, inventory adjustment, and other aspects—and insists on low-cost management. In addition, UNIQLO takes 100% of the raw material and inventory risks, thus differentiating itself from competitors. This is why UNIQLO can generate high levels of profitability in its business operations.

Product Design & Sales Planning

UNIQLO’s R&D Center has operating bases in Tokyo and New York and researches world trends in fashion, lifestyles, and other areas. Based on this information, concepts for each season are decided at meetings held jointly with representatives of UNIQLO’s merchandising, marketing, production, and other departments. Based on these concepts, the R&D Center creates designs, and then makes its selection of products from samples to coordinate product collections.

Quality and Production Controls

At UNIQLO’s overseas offices in Shanghai, Shenzhen, Ho Chi Minh City, and elsewhere, about 110 staff responsible for quality and production control maintain close contact between the partner factories and the UNIQLO Head Office to monitor progress of production as well as identify problems. The staff visit partner factories three to four days each week to conduct quality and safety checks and confirm manufacturing specifications. Voices of customers at UNIQLO stores are fed back to the staff and used to make immediate improvements in product quality.

Since 2000, UNIQLO’s takumi team, comprising veteran personnel trained and seasoned in Japan’s textile industry, has played a substantive role in providing technical support to partner factories. These takumi have a diverse range of backgrounds and skills, and each of them plays a role in supporting the quality of UNIQLO products while transmitting their knowledge gained in Japan’s once highly acclaimed apparel industry to the next generation.

Product

UNIQLO calls on about 70 partner factories located in China and other Asian countries for production and provides them with proactive technological support. To this end, UNIQLO sends a team of specialists called takumi, each with 30 years or more experience in Japan’s textile industry, to these factories. The takumi are closely involved in all aspects of the production processes from the inspection of yard to the shipment of final goods, and they keep a sharp eye on a wide range of things, including materials and yard, weave patterns, dyeing, sewing, texture, finish, and safety issues.

UNIQLO’s products are manufactured in lots of about one million at partner factories. To ensure evenness in quality for such a large volume of products, problem-solving capabilities backed by experience and knowledge are indispensable. This is where the skills of the takumi are making a major contribution.

For example, in the dyeing process, to ensure that colors produced by tens of vats of dye, with a capacity of one ton each, are uniform, tasks do not stop at the confirmation of the process but must also extend to checking on the humidity and other environmental conditions accurately. The takumi provide advice to help make judgments regarding the subtle aspects of various dyeing processes and thereby prevent variations in quality.

At present, about 90% of UNIQLO products are manufactured in China. As UNIQLO’s retail network is extended around the world, the production network is being extended to other countries in Asia, including Vietnam, Cambodia, and Bangladesh. Going forward, UNIQLO will insist on top-level quality management in its world-class manufacturing systems.

Conclusion

China’s textile industry is still highly developed, and the textile machinery industry is technologically advanced worldwide. The number of people in Japan who can teach technical skills has decreased, and. In fact, we should properly transmit Japan’s highly detailed, special technologies. Mr. Iida is engaged in providing technical guidance for the start-up of overseas dyeing and spinning companies. He provides guidance on the theories and practices of processing and finishing.

Research Concept Creation Design Coordination Sales

Materials Planning and Procurement

Given the exceptionally large volume of sales, UNIQLO negotiates directly with leading material manufacturers and procures top-quality materials from around the world. Selection of materials for standard products and campaign items begins more than a year before sales. At the same time, UNIQLO conducts research to determine whether the materials meet its quality standards and whether these materials can be procured in sufficient quantity.

In addition, the team works strategically with TORAY and other materials manufacturers to develop new fabrics, such as HEATTECH.

Sales Planning and Production

The merchandising, R&D, marketing, and production departments work together to prepare numerical plans, develop product mixes to match the concept for the season, and adjust production according to current sales volume.

Inventory Control

The inventory control team monitors sales and inventory levels and maintains the optimal level of inventories at stores. In addition, the merchandisers and persons in charge of sales and production work together to adjust inventory inputs to stores and the timing of discount sales to minimize inventory risk.

Arrival of Materials

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Quality and Production Controls

At weekly reporting sessions, UNIQLO staff identify problems related to materials and issues arising in the sewing and processing stages. Thin persons responsible for follow-up are appointed to confirm corrective action to be taken and timing, thereby moving quickly to solve problems.

UNIQLO product mixes to match the concept for the season, and

 Voices of customers at UNIQLO stores are fed back to the staff and used to make immediate improvements in product quality.

Photographs show examples of washing, cutting, and sorting operations at the merino sweater factory in China.

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Dyer Takumi: Kazuaki Iida

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Several dye shades are mixed to achieve the proper depth of color. To ensure products are dyed the same hue, maintaining temperature and humidity at the right levels in the dyeing process is vital.

Good materials are a requirement for making good sweaters. Wool is selected carefully for length, thinness, and texture, and delivered to the factory.

In the inbound inspection, materials are examined for impurities, knots, and variations in yarn thickness. If problems arise, the causes are investigated, and corrective measures are taken.

Ready to wind yarn bottom is in Japan into thread. It is possible to ensure uniform permeation of dyes. Controlling the processes, including careful cleaning of the dyeing vats, is also important.

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Expanding UNIQLO’s Production Network

Since opening its first production offices in Shanghai and Shenzhen in 1999, UNIQLO has expanded its production in China. At present, about 95% of items are manufactured in partner factories in China. By continuing and strengthening initiatives with these partner factories, UNIQLO has been able to supply high-quality products. Moreover, as UNIQLO’s sales network has become global, it has worked to expand its production operations to other locations in Asia. In Southeast Asia, after opening a production office in Ho Chi Minh City in Vietnam in September 2008, UNIQLO opened another production office in Dacca, Bangladesh, where growth in the textile industry is anticipated. Looking to the future, UNIQLO will be working to reduce the risk of over-concentrating production in China as well as the cost of production, and plans call for eventually producing about one-third of its items outside China.

Weaver Takumi Eji Momoi

“The most important thing in relationships with partner companies is building trust. To develop good relationships, it is critical to meet with them as many times as possible and talk with them face to face.”

Mr. Momoi has more than 20 years of experience in the knitting industry in Japan, including working in various processes from knitting through finishing as well as machine maintenance. He gives technical guidance at the Shenzhen office.

Processing and Finishing

Garment parts are knitted in this process. To ensure the parts fit together properly, it is important to maintain uniform strength and monitor temperature and humidity. During the processing and finishing stage, washing the garment gives sweaters softness and texture. The key at this stage is how to bring out the natural features of the fabric. Finally, the garment is ironed carefully, depending on the nature of the fabric. Also, the finish and safety of the garment are confirmed through a series of inspections.

Knitting and Sewing

The yarn is then stretched out to about 20 times its length until it becomes a strand. To give the yarn a uniform thickness, it is essential to optimally maintain the high-speed, revolving spinning machines. The yarn is then stretched out to about 20 times its length until it becomes a strand. To give the yarn a uniform thickness, it is essential to optimally maintain the high-speed, revolving spinning machines.

Spinning

By repeating the process ofcombining several mixtures together and drawing them out, the fibers become parallel. Leaving a certain degree of slack is important to make the yarn soft and fluffy.

UNIQLO has more than 20 years of experience in the knitting industry in Japan, including working in various processes from knitting through finishing as well as machine maintenance. He gives technical guidance at the Shenzhen office.

Sales

UNIQLO has developed a network of about 760 stores in Japan, mainly in suburban roadside locations and inside shopping centers. UNIQLO is continuing to open new stores suited to their respective locations, ranging from large-format stores, with about 1,600 square meters of sales floor space, to standard-format stores, with about 700 to 800 square meters of space.

To continue to offer apparel that can be worn “anytime, anywhere, and by anyone,” UNIQLO manages its product composition and volume with the objective of having the optimal number of products in terms of colors and sizes. UNIQLO conducts campaigns aimed at selling products suited to the season, such as cashmere and fleece. As part of these campaigns, UNIQLO distributes flyers on weekends and aims to attract customers by discounting featured products for limited periods. These limited-period discounts are aimed at sales promotion, and after the end of the promotional period, typically on weekends, prices go back to their original levels.

UNIQLO’s principal expenses include wages, advertising, and rental costs. Wages consist mainly of salaries paid to store personnel, but, as a result of the standardization of work tasks in all stores, these personnel expenses are managed efficiently. The principal forms of advertising are the distribution of flyers and TV commercials.

The ratio of rent to sales is relatively low because about 60% of UNIQLO stores in Japan are situated on suburban roadside locations. Also, when opening outlets in shopping centers, UNIQLO prepares simulations in advance and works to minimize rental costs.

Online Store

UNIQLO offers merchandise at special prices 24 hours a day to customers in Japan via the UNIQLO Online Store.

Customer Service

We forward more than 80,000 opinions and requests annually that come from customers via telephone, postcard, and e-mail to the proper departments and reflect these in improvement in products, stores, and services.
UNIQLO began its entry into overseas markets with the opening of stores in London in September 2001. As of August 31, 2008, UNIQLO’s overseas store network had expanded to 54 stores, including 21 in mainland China, including eight in Hong Kong, 18 in South Korea, 13 in the United Kingdom, 1 in the United States, and 1 in France. To best articulate the UNIQLO image and concepts, flagship stores have been opened in New York and London. While working to enhance UNIQLO’s brand value, we are stepping up our program of opening stores in Asia. In spring 2009, we are planning to open our first store in Singapore, which will be our fourth region in Asia. In autumn 2009, we plan to open our third global flagship store in Paris.
UNIQLO Japan

Communicating the “Reason to Buy”

Recently, consumers are becoming thrifter and less willing to purchase items that are not necessary. This is precisely why we at UNIQLO must fill our stores with colors and products as well as present a fun atmosphere in our stores. Precisely because consumer confidence is low, it is important to communicate clearly the “reason to buy.”

The product itself, though, is only half of the “reason to buy.” The other half comprises the non-product aspects, such as the services that our staff provide to give customers a pleasant shopping experience and whether the sales area makes it easy to view and buy the products. We try hard to get customers excited at our stores, and create a sales space they will remember.

Even with the same item, we have to highlight the differences from last year. In the fall and winter season of 2008, color skinny jeans were a big hit, showing that Japanese consumers are not hesitant to enjoy colors. We began to offer skinny jeans three years ago but as the styles have become tighter, we have used stretch fabrics, and these have become a regular part of the basic fashion wardrobe. So, it is important to evolve existing products. Basic items may not seem to change, but, by changing colors, fabrics, and the silhouette, we are able to propose new fashions.

What customers want most is “change.” For individuals and companies, the origins of growth I believe are in “change.” The products, sales area, and service all come together, and it is necessary to offer change. UNIQLO has grown by putting aside conventional wisdom in the apparel industry, developing products and creating sales spaces that appeal to people regardless of their gender or age. Going forward, we intend to go beyond conventional wisdom and continue to evolve to meet customer expectations.

Robust Performance Contributors

The slump in the world economy has become more pronounced, and Japanese consumers have also become apathetic. Despite this, UNIQLO reported 8.9% growth in sales and a 35.0% increase in operating income in fiscal 2008—both major gains.

There are three reasons for this robust performance. First, consumers are more aware of UNIQLO’s high-quality, high-performance fabrics, such as our denim, cashmere, and HEATTECH, and, as a result, they have a better perception of the value of our products, and the balance we keep between prices and quality. Since the launch of HEATTECH products four years ago, we have made improvements, and, during the fall and winter season of 2007, the HEATTECH line became a major hit, with more than 20 million units sold.

The second reason is that we have focused more on selling our standard basic products, such as cotton T-shirts, merino sweaters, and jeans, increased inventories of the products, and created stores that make it simpler for customers to shop.

Finally, our sales campaigns have been effective. Our TV commercials for HEATTECH products in the fall and winter season of 2007 featuring Ryuhei Matsuda and Kumiko Aso drew considerable attention. Then, in the spring and summer season of 2008, our campaign to publicize our new “beauty bottoms” line, featuring Norika Fujiwara, and our BRA TOP campaign, featuring Kazue Fukiishi, were also successful.

More for Women in Large-Format Stores

The size of the women’s apparel market in Japan is about twice that of the men’s market, but the percentage of women’s apparel in UNIQLO Japan sales is only about 40%. UNIQLO has considerable room to expand sales of women’s apparel, and we believe we can expect high growth in this area.

In addition to the lineup of basic products that we have offered thus far, including tops, sweaters, and inner wear, we are planning to expand our offerings to include skirts, dresses, jackets, and blouses.

To expand our women’s lineup and attain further growth in Japan’s apparel market, there will be limitations on the range of items we can offer in our standard-format stores in the suburbs with between 700 square meters and 800 square meters of sales floor space. Therefore, we are moving forward with the development of large-format stores with about 1,600 square meters, or twice the sales floor space of standard-format stores.

During fiscal 2008, we opened 22 large-format stores in differing types of locations, including suburban shopping centers, commercial facilities, and roadsides. At the end of August 2008, we had 50 large-format stores in our UNIQLO Japan operations, and, during fiscal 2009, we plan to continue aggressive development of these stores.
**UNIQLO International**

**China: From Producer to Consumer**

While UNIQLO has been popular in Hong Kong as a Japanese brand from the start, in Shanghai, the brand became known only after the opening of our large-format store there in 2006. However, the percentage of customers who pay repeat visits to our stores is high, and we have earned a reputation as a “high-quality Japanese brand” and a “reliable brand offering products for daily living.”

In spring 2008, we opened two stores in Beijing, just as interest was rising in the then-upcoming Olympics, and launched our campaign promoting UT, or UNIQLO’s printed T-shirts. It was a chilly day when we opened one of these, our Beijing Xidan store, but sales of our UT’s were extremely strong, and drew much more attention than we had expected. Beijing is a capital city steeped in culture and history, and I imagine the cultural aspects of our UT line, including the fun exuded by our printed T-shirt designs and the attractiveness of Japanese pop art, supported our success.

In August 2008, we opened a large-format roadside store in San Li Tun (see photograph on the right), an area where many world-class brands have shops, and are moving ahead aggressively with the opening of stores in the Hua Bei region, which is centered around Beijing.

Thus far, China has been a production center for us, but, in recent years, it has attracted growing attention as a consumer market. When we consider China’s vast land mass and population, it is conceivable that the size of the consumer market in China in the future could be 10 times larger than that of Japan. China is also increasingly a promising market for UNIQLO. What I have learned thus far is that consumers in Japan and China are basically the same and that consumers will give their support to brands that can respond accurately to their needs. I am confident that UNIQLO’s business model can succeed throughout the world.

**UNIQLO International Shows First Profits**

The world apparel market is estimated to be about ¥100 trillion annually in size, but UNIQLO accounts for only 0.5% of this market at present. As a result of the downturn in economic conditions, consumer confidence in Europe, the United States, and elsewhere is at a low ebb, and competition is intensifying. Even so, we still see considerable growth potential for UNIQLO in markets outside Japan.

For the fiscal year ended in August 2008, UNIQLO International reported its first profits. This was because of continued steady expansion in performance in China, including Hong Kong, and South Korea combined with a major improvement in profitability of our operations in the United States.

In China, we posted gains in performance as we made a major push to promote the same products as in Japan, focusing our efforts on the Ganghui Square store and the Zhengda store, and this led to a major improvement in brand awareness. In South Korea also, we are aggressively expanding our store network, with initiatives including the opening of a large-format store in the Myungdong area of Seoul.

At the same time, we are opening global flagship stores in the principal fashion cities of Europe and the United States as part of our drive to communicate the UNIQLO brand image. Following the opening of our Soho global flagship in New York, in November 2007, we opened another global flagship, on Oxford Street in London.

**Growth Strategy**

As we step up our drive to open stores in Asia, we plan to take the maximum advantage of our flagships in Europe and the United States to strengthen the UNIQLO brand.

In China, we aim to open, as quickly as possible, a network of about 100 stores covering the Hua Bei region, which includes Beijing; the Hua Dong region, centered around Shanghai; and the Hua Nan region, which includes Hong Kong. To this end, we are working with UNIQLO Japan to build a strong store development team and train personnel. In South Korea also, we have formulated plans for a 100-store network centered around Seoul. We are also scheduled to open a store in Singapore in spring 2009.

In Europe and the United States, as a follow-up to our flagships in New York and London, we will open a global flagship in autumn 2009, with about 2,000 square meters of sales floor space to be located in the Opera district of Paris. We are also considering opening stores in Russia and India, where high economic growth is expected.

Also, we have started global marketing, focusing initially on the UT line, for spring and summer 2008 in order to communicate the quality and message of UNIQLO products throughout the world. In winter 2008, to raise awareness of the features of our HEATTECH products, we successfully implemented a global marketing campaign around the world.
UNIQLO’s Heat-Retaining HEATTECH Fabric

HEATTECH fabrics absorb the moisture of the body and convert it to heat energy. These fabrics were created in a joint initiative between UNIQLO and TORAY.

We first introduced HEATTECH items, as “warm inner” garments for men, during the fall and winter season of 2004. We then introduced sales of HEATTECH items for women the next year. In 2007, we succeeded in developing improved HEATTECH products with an enhanced texture by permeating the fibers with milk protein, which gives the fabric a more moist and softer feel.

Features of HEATTECH products include suppleness, thinness, and comfort, almost as if you were not wearing them. Based on the strategic partnership between TORAY and UNIQLO since June 2006, HEATTECH fibers have evolved by a quantum leap, and have become a smash hit, giving customers a sense of inspiration and satisfaction. The fiber material used in HEATTECH is a synthetic fiber known as “LOC II CEO® α.” Its features include suppleness, but with strength, and excellent dyeing properties. The development of this fiber was responsible for HEATTECH’s superior functionality. TORAY has added a manufacturing line dedicated to “LOC II CEO® α” at its Ishikawa Plant to respond to rising demand.

HEATTECH products were extremely popular during the fall and winter of 2007, with demand running ahead of supply. Moreover, during the fall and winter of 2008, sales rose 40%, to a total of 28 million items.