Ariake Project Begins to Bear Fruit

Driving Digital Transformation

National, industrial, and corporate demarcations are disappearing, and intricate connections are forming between people, things, and information. As rapid IT development drives an information revolution, corporations are experiencing their own new industrial revolutions. To stay ahead, we need to transform our business by replacing our traditional supply chain with an information-driven one that links to the design, planning, production, distribution, and retail stages, and that is able to instantly create the products customers want. Our aim is to create an entirely new digital consumer retail industry.

To kick-start this revolution, we moved our UNIQLO headquarters to the vast, open-plan UNIQLO CITY TOKYO office on the 6th floor of our Ariake warehouse in February 2017, and threw ourselves into our transformative Ariake Project. The project is now starting to bear fruit in multiple ways, as small, flat teams rapidly analyze our business, make decisions, and implement ideas. The Ariake Project has been running for two years, and it is now roughly 30% complete.

Eliminating Waste in Production, Transportation, and Sales

The ultimate aim of our digital consumer retail company is to eradicate waste by ensuring we make, transport, and sell only what is necessary. Pursuing our Ariake Project will help to achieve that aim by transforming our entire supply chain, from design and planning to production, distribution, and retail.

In summer 2018, we launched a joint project with Google under the Ariake Project umbrella. I am convinced we can gain a quicker understanding of what colors and silhouettes are in fashion by analyzing big data, including huge volumes of images, from around the world. And that’s not all. We can also create a more efficient design process and ensure more accurate volume planning for the products that customers want by more effectively utilizing UNIQLO and GU’s vast amounts of existing information.

Our UNIQLO UPDATE initiative is already proving extremely successful in terms of perfecting core UNIQLO ranges. I believe that repeatedly implementing meticulous improvements based on analysis of a vast pool of customer opinions is the surest way to achieve even better LifeWear.

UNIQLO and GU are mass-volume clothing operations, so we sometimes need to order additional production mid-season. Given the potentially huge impact on business performance, getting the timing right is crucial. Order additional production too late, and we risk losing precious sales. The Ariake Project is helping solve these problems by generating more accurate production volume predictions, reducing the time from design to production and production lead times, and overhauling our logistics systems. We intend to make the most of AI, algorithms, and other new technologies to continue accelerating the Ariake Project.
Advancing the Ariake Project with the Best Global Partners

Logistics reform is one area where the Ariake Project is already reaping great benefits. Our partnership with leading Japanese logistics firm Daifuku Co., Ltd. enabled us to equip our Ariake warehouse with the latest automated equipment and systems within two years of the project’s launch. The opening of a fully operational automated Ariake warehouse dedicated exclusively to online sales in fall 2018 heralded sweeping future logistics reform across the Fast Retailing Group. Thanks to the introduction of radio-identification frequency (RFID) tags on all products, UNIQLO can automatically complete warehouse processes such as stock receipt, sorting, picking, and inspection. Around the clock operation eliminates delivery delays caused by labor shortages during busy periods.

Plans are now underway to use automated warehouses to make product delivery to UNIQLO stores more efficient as well. We are also looking to establish automated warehouses in Western Japan, China, the East and West Coasts of the United States, and Southeast Asia. Over the next three years, I want to invest ¥100 billion to accelerate the introduction of automated warehouses at all Fast Retailing global logistics centers.

In the IT field, we are building frameworks utilizing AI and other new technologies in cooperation with multinational firms such as Google and Accenture. On the production side, we are proud of our partnerships with Japanese firms Toray and Shima Seiki on developing unique products such as HEATTECH, Ultra Light Down, and 3D Knit items, respectively. We are also strengthening partnerships with factories in China and Southeast Asia.

I intend to secure more leading global technologies and capabilities to actively progress our supply-chain reform.
I put UNIQLO’s comprehensive success down to a growing embrace of our LifeWear concept worldwide. LifeWear is clothing that offers true comfort, high quality, and fashionable touches at a price everyone can afford. Unlike trend-chasing apparel firms, the UNIQLO brand seeks to become an essential part of life. LifeWear is forged out of long-held Japanese respect for superior craftsmanship. LifeWear means bold new materials born from revolutionary technologies. LifeWear means simple, highly finished clothing that accentuates the wearer’s style.

UNIQLO International’s performance in FY2018 was spectacular, with a 26.6% rise to ¥896.3 billion, placing UNIQLO International revenue ahead of UNIQLO Japan revenue for the first time. Operating profit soared by 62.6% year on year to ¥118.8 billion, reaching the UNIQLO Japan level. I am certain UNIQLO operations in Greater China and Southeast Asia will continue to be key drivers of growth. I expect UNIQLO Europe’s profitability to improve further, with new operations in Spain, Sweden, and the Netherlands all doing well. The halving of operating losses at UNIQLO USA was great news. I truly believe FY2019 will be when our United States operation moves into the black. We are in for an exciting year.
Greater China and Southeast Asia represent crucial pillars of future UNIQLO growth. Asia’s middle-income population is expected to continue its rapid growth as economies advance. Journalists and investors often ask me about slowing Chinese consumption, but that’s certainly not the case for UNIQLO. In fact, from our perspective, China is actually one of the most buoyant places we operate in. We view the region spanning China, Southeast Asia, and India as the growth center of the world economy, and we will continue to open stores there. UNIQLO has already established solid business platforms in these Asian markets, so it is perfectly positioned to leverage the region’s blossoming business opportunities. Japan’s population of 120 million is small compared to the several hundred million professionals in Greater China, and the estimated one billion professionals in Asia as a whole. This exciting market is 10 to 20 times the size of Japan, and I intend to secure solid growth for our business there.

We are on track to enter the Indian market in fall 2019. I think India harbors as much potential growth as China over the long term. India’s textile industry is old, and we will need to work together with the people of India to revolutionize local industry practices—just as we did 20 years ago in China when we worked to create UNIQLO’s renowned production framework. Different regions of India have different cultures and religious customs, and we will need to think about designing and selling traditional native clothing articles. We will also need to train employees in our exacting customer service and communication principles, and nurture a successful retail business from scratch.

Succeeding in India will make UNIQLO the first truly global clothing brand from Asia. We want to combine Japanese technological prowess with the strong production and purchasing power of India and other parts of Asia to further strengthen UNIQLO International.
Brand Building in Europe: New Urban Store Offensive

We are raising UNIQLO’s brand profile by opening large, standout stores, in prime locations across the major cities of Europe. A lot of the world’s most successful global fashion brands have strong European roots. I would argue that you can’t achieve worldwide success without building a strong brand in Europe, with its long history at the forefront of global fashion.

We opened the first Spain UNIQLO store in fall 2017, and the first stores in Sweden and the Netherlands in fall 2018. All these new stores are housed in traditional historic buildings in prime urban locations. We are keen to create stores that embrace and complement the buildings they are housed in, and that present an exquisite blend of European and Japanese culture. We find that these blended backdrops enhance UNIQLO’s image as a fresh brand from Japan and create a buzz in the local community.
UNIQLO USA was well managed over the past year, and is set to head into profitable territory now that the CEO and local staff have successfully strengthened the operation’s management structure.

The United States is the world’s biggest market, but UNIQLO brand visibility is still too low to be genuinely successful. We need to raise UNIQLO’s profile in the US by opening large, well-designed stores in major cities in the same way we’ve done in Europe. However, given the country’s extensive

landmass, it is extremely important to nurture close links between online and physical store operations as we expand the store network. Our e-commerce operation is growing rapidly every year thanks to more online sizes and an attractive range of semi-order-made items. Online sales now account for over 20% of total sales. Given that shopping malls are declining rapidly in the US, we cannot create a successful business by opening lots of mall stores and attempting to compete on price with countless other apparel brands. Instead, we must open large, beautiful stores in prime locations that enable customers to fully appreciate the UNIQLO LifeWear concept and the intrinsic quality of UNIQLO products.
UNIQLO Ginza store (global flagship store)

UNIQLO Japan: Creating a New Retail Industry

Online-to-Offline Services Catching On in Japan

Online-to-offline (O2O) links are common in geographically large markets such as Mainland China, and we are now seeing a rapid increase in O2O in Europe and the United States as well. With our strong store network in Japan, and our desire to fundamentally expand our online operations, effectively managing O2O and building a new business that closely links online and physical store operations will be extremely important for us.

Launched in FY2018, our UNIQLO store pickup and convenience store pickup services are already being used for around one-third of online purchases. It is extremely convenient for customers to be able to pick up their online order at a UNIQLO store or convenience store near them. If you pick up an item purchased online at a local UNIQLO, you can try it on then and there in the store. You also get easy access to joint-collection items that previously were only available in our larger stores. I intend to expand O2O services, which create fun, convenient shopping experiences whether buying online or in store.
The immediate outlook for the Japanese apparel market is tough. A declining population and ageing society means the nation’s marketplace continues to shrink. However, following the introduction of our easy-to-understand everyday prices in spring 2016, many customers found renewed appreciation for UNIQLO’s high-quality clothing and exceptional value.

To maintain good revenue and high profitability, every store must tailor its product range to best satisfy local customer needs, as well as strive to cut costs. Achieving effective “Koten Keiei” (local store management) is more important now than ever. We understand that experienced employees with a rich knowledge of local needs are vital to the realization of community-focused business and Koten Keiei. That is exactly why UNIQLO introduced a local store employee system. Today, there are 10,000 locally-stationed full-time employees—one-third of the UNIQLO Japan retail workforce. These valued members of UNIQLO form the foundation of our community-focused operations.

GU: A New Fashion Brand from Japan

Experience Breeds Excellence

While GU operating profit declined for the second straight year, I believe the brand is now ready to take center stage and show its true strength. In my opinion, there is a considerable need for fashion items at roughly half or two-thirds the price of UNIQLO products in Japan, and other countries in Asia as well.

I think GU will be back on track soon. Over the past two years, it got too caught up in chasing fashion trends, which resulted in disjointed product concepts. Now, GU has shown it is able to follow the fundamental management principle of creating products that satisfy customer needs.

The GU brand seeks to offer fun fashion at low prices, so it is vital that it does just that. From now on, GU will focus on selling mass volumes of truly on-trend items. In fact, GU could benefit even more than UNIQLO from new practices and processes introduced under Fast Retailing’s transformative Ariake Project. The project is using digitalization to radically change the way we collect and analyze all sorts of global fashion information, and it facilitates the early capture and mass commercialization of the latest fashion trends. GU has everything to gain from this approach.
Managerial Thinking at Every Level

Aiming to Become the World’s Number One

Today, Fast Retailing is the world’s third largest apparel retailer in terms of sales, sitting behind Inditex, the operator of the ZARA brand, and H&M. While UNIQLO co-exists and competes with these global brands, it is also competing with multiple local brands. Although the ZARA and H&M brands focus on developing fast fashion items, UNIQLO is gaining a loyal customer following for its LifeWear concept—high-quality, well-designed, and comfortable everyday essentials. I am determined to help Fast Retailing achieve strong and consistent growth as a global brand, and to achieve our dream of becoming the world’s best-selling apparel retailer.

Encouraging All Staff to Think Like Managers

Our mission statement—“Changing clothes. Changing conventional wisdom. Change the world.”—stems from a desire to provide customers with great clothing and impeccable service. To achieve that mission, we need to develop into a company that urges all employees to explore their individual creativity to promote innovation. We must also inspire employees worldwide to work passionately under our “Global One” and “Zenin Keiei” management principles. Global One encourages all Group businesses to share their success stories and global best practices with each other. Zenin Keiei encourages all Fast Retailing staff, from in-store part-timers to top managers, to adopt a managerial mindset when thinking about how to provide customers with the best products and the best service.

Sales at Leading Apparel Retailers

*Compiled from individual annual report data and calculated using exchange rates as of end August 2018.
To help strengthen our corporate governance, Fast Retailing has adopted a method in which the majority of Fast Retailing Board members are independent external directors. We have also introduced a system that clearly separates daily business execution from the Board’s supervisory functions, as well as expedites our decision-making.

I turn 70 this year, and so it is natural that I am nurturing the next generation of leaders—people who will become executives or members of our management team. We need managers who can operate comfortably and effectively on the global stage, and work together with local staff to expand operations—those who embrace challenges and analyze past mistakes to improve outcomes. We can’t enjoy lasting success by copying industry trends. So, we are training new business execution teams to preempt global and industry changes and evolve our business.

Separating Business Execution and Supervision

Promote ESG Activities, Make the World a Better Place

While our corporate activities are designed to achieve a stable expansion of our business, they also aim to enrich the lives of customers worldwide and contribute to the happiness of society.

The Fast Retailing Group produces and sells 1.3 billion items of clothing each year. We are aware of the broader impact of our business activities, and the importance of taking positive action to promote environmental protection at sewing factories and fabric producers. We ensure safe working environments for partner factory workers, uphold human rights, and alleviate the impact of business activities on local communities. Investors are also starting to scrutinize companies more strictly on their ESG record. At Fast Retailing, we strive to fulfill the expectations of all stakeholders by pursuing varied and proactive ESG activities. We remain committed to making the world a better place through clothes.