

Why aim to become a 3rd generation, concept-oriented SPA retailer?

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I am Tadashi Yanai, the chairman & CEO of FAST RETAILING CO., LTD.

First I regret to say that our business performance in the year to August 31, 2005 did record an increase in revenue but unfortunately posted a fall off in profit. We should have been on a clear upward trend but it turned out that, from a profit perspective, we had not actually placed ourselves on this upward bound train.

I am determined to root out these problems and turn them around during this current period with a complete, far-reaching transformation of our company structure. I call this, "the reinvention of FAST RETAILING's operational structure".

Furthermore, if I am unable to get us onto a fast growth track during the current period, I am determined at the very least to achieve a stable growth base on both revenue and profit. I will then concentrate on shifting our performance onto a high growth track from the following business year.

The main topic that I want to present to you today is why FAST RETAILING should be aiming to become a "third generation, concept-oriented SPA*." At our most recent conference to explain our plans to change FR's operational structure, I fielded the most questions on this third generation SPA idea. So, I will speak mainly on this topic today.

* SPA: Specialty store retailer for Private label Apparel

The current global SPAs

1st gen SPA: GAP, LIMITED, etc

(1985 ~) ⇨ success in mass production

2nd gen SPA: ZARA, H&M, etc

(1995 ~) ⇨ sudden growth on back of fashion/trend production

3rd gen : So far no global players

(2005 ~) ⇨ a new success knowing what to sell, where.

The firms that succeed most speedily here will dominate.

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First of all, let me touch on how we see the history of SPA retailers, or companies that are involved in the whole process of private brand apparel creation from design through manufacture and retail. Just how have first generation, second generation SPA firms evolved to date and what further changes do we envisage going forward into the third generation phase?

First of all, GAP, LIMITED are typical examples of first generation SPAs that enjoy success through mass production of one-line items. The second generation of SPAs are clearly illustrated by such representative European names as ZARA and H&M. Rather than **one-line** garments, their strong growth is generated through the marketing of clothes based on fashion or generational trends.

If we extend this process out, it is increasingly obvious to me what type of route we need to take at FAST RETAILING. I would like to explain to you my own take on just what a "third generation SPA" should aim to be.

Indeed, I believe that the firms that realize the need for this shift towards third generation SPA management and conduct it with the greatest speed will come out victorious.

The Clothes Concept

Clothes = information

- The speedy emergence of a “super information-oriented society” is fast changing manufacturing, market and customer perspectives, no longer contained within national borders.
- Customers react to that information and look for that in their clothes. To wear that information and be fulfilled by it.
- To be a successful growth company, you must be able to collect, conceptualize and commercialize that information consistently throughout garments and stores.

First of all, before we enter into an explanation of just what a third generation SPA should be, please understand how important it is to think of clothes not simply as clothes but as ‘a source and expression of information’.

We live in a fast changing society where Japan and other developed countries are experiencing the speedy creation of a super-information society. The world of manufacturing, markets and customer’s perspectives are no longer contained within national borders. Customers respond to the abundant information they have at their fingertips these days, and they come to our store to buy a concrete representation of that information. A customer’s attitude towards a purchase is becoming increasingly one of wanting to incorporate global information into their clothes and to achieve a certain amount of satisfaction from being able to do that.

If you think of the clothes retailing business in this way, then it immediately becomes clear that what we have to do is to transform ourselves into a company that can; a) efficiently collect the highest quality information, b) mould that in our own concept of clothes, and c) translate that concept into a concrete style of clothing and stores to offer to the general public. Unless we can do all of that as a company, I don’t believe we can achieve or would deserve to achieve the type of growth I am aiming for.

Information enhanced clothes

Information appeal through clothes

- Contemporary mood
- Social needs
- Lifestyle
- Essential daily needs
- Trends
- Fashion
- Look
- Coordinates
- Style
- Design
- Fabric
- Functionality
- Feel

Information for must-have clothing quality.
The discovery of new value.

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If you then set to thinking about just what constitutes information enhanced or concept clothing, I think the most important factor is the incorporation of 'contemporary mood'. What I mean exactly by that is, making people feel and experience the mood of their **time** either through the use of clothing to express a contemporary mood or by incorporating that contemporary mood into the clothes you offer.

That would then naturally lead into the incorporation of an awareness of social needs, lifestyle changes, practical everyday needs, trends and fashions. And finally, the 'feel' of clothes is the ultimate expression of wisely incorporated information or clothes concept application.

I think any buyer seriously considering buying a garment or any seller seriously considering why he/she sells a certain product can easily relate to and embrace such a concept of information-enhanced clothing. If we don't hit clearly on the quintessential reason why a certain product appears vital to a certain person, or, put differently, if we are unable to learn how to discover the specific value of any garment, then neither we, nor anyone else, can be successful in the business of selling clothes in the future.

Top quality information how to gather and remodel it

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Creating R&D centers across the globe

- Why a global R&D network?

(From New York&Tokyo, to Paris, Milan, to London, Hong Kong).

- The R&D centers not purely design focused. Pinpoint key local personnel, directly gather latest information on global trends, needs, lifestyles, fabric functionality, etc. Dissect and remodel information into concept-oriented clothing.

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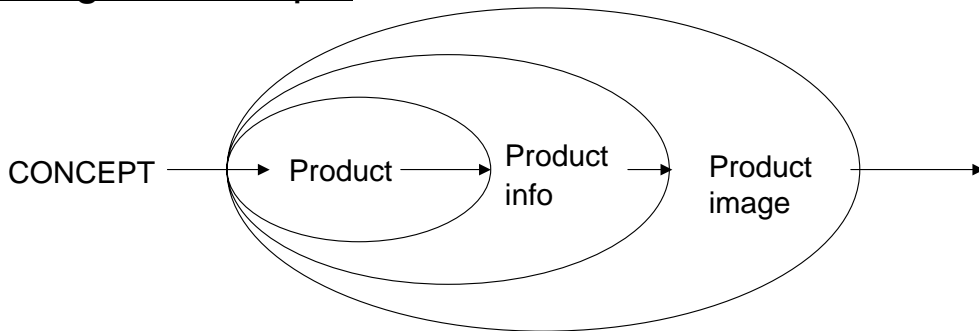
Next, let me touch upon just how to go about collecting and remodeling this information. FAST RETAILING is setting up R&D centers around the globe precisely for the purpose of collecting, surveying and researching local strands of this global information flow and developing products. We have already set up our main R&D center in New York in spring 2005. And we are also planning to open sister bases in Paris, Milan, and, if possible, in London and Hong Kong.

The R&D centers are not being established purely for design purposes, but to pinpoint potential key local personnel and to directly gather the very latest information from their areas in regards to global trends, needs, lifestyles, fabric and functionality, etc. The centers will then be responsible for dissecting and remodeling that information into our own concept of clothes.

Top quality information – generate the strongest concept

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Orientate entire business around generation of strongest concepts



· Incorporate top quality information into creation of strong unique concept, carve a clear correlation between product – product information – product image.

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Having achieved this, you can then set about using this information to formulate your own concept. The concept is paramount, the concept drives product creation, and the concept is strong enough to clearly communicate the clothes' inherent information enhancements and product image. Once you have carved such a strong concept that is clearly reflected in your products, product information and product image, then you will be able to sell clothes successfully and in abundance.

How to capitalize on that strong clothing concept?

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The concept drives all

· Not only design, manufacture, distribution, but store management, promotion, advertising communication, strategic PR, etc must all be driven by a clear concept effectively and efficiently to enable flexible but coordinated management at both an overall business operational level and specific business category level.

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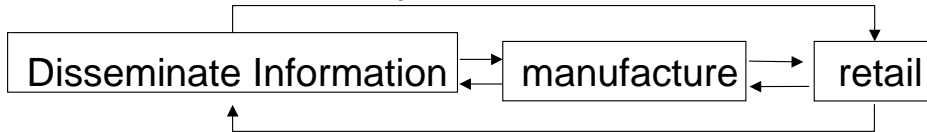
It is key to ensure that our company's concept drives not only the design, manufacture and distribution of clothing but has a much broader reach across every aspect of our business in terms of our stores, promotion, advertising communication, strategic PR, employees and the company. Having established a clear concept, the concept must be implemented in a flexible but coordinated fashion at both the overall operational level, and at the specific business department level to ensure maximum effectiveness and efficiency.

In fact the 3rd generation SPA is not SPA

SPA: Specialty store retailer of Private label Apparel

As is: manufacture retail

POST-SPA: The concept drives all.



- Impress customers with a strong and uniquely molded concept expressed through our clothing creation, virtual merchandising and corporate communications.
- What constitutes a strong concept? Ultimately one that discovers and displays a fresh impelling reason for customers to buy clothes.

If we apply this outlook to our industry, then you could almost say that the third generation SPA is so different from the first and second generation, that it is no longer an SPA at all. SPA firms to date have operated by cycling clothes from manufacture through retail. But the third generation SPA firm must allow their specific concept to drive the entire operation, and then to disseminate that new concept-oriented information in its own right.

We must win the hearts of our customers by molding the very latest information into our own concept and allowing that concept to drive and dominate our entire company and all the products that we offer. To express this in more practical terms, we have to discover and display a new “reason to buy” to our customers.

What we have to do?

1. First, our staff need to feel, consider and collect the latest information from around the world.
2. We then need to attract world-class leaders from advanced global areas who can conceptualize this latest information.
3. All staff must embrace leaders' concepts as a team, the concept to be reflected across all operational processes from clothes creation, VMD, communications.
4. Use feedback from stores (sales outlets) around the world to deepen or accelerate a specific concept and production processes.
5. Challenge potential of all our stores from 33 through 3300 square meters to help realize this information-oriented concept.

In terms of what we at FAST RETAILING need to do going forward, first and foremost, our staff need to become more acutely aware of the very latest information world wide, to collect it and to consider it.

Then, we have to attract key management personnel from the world's advanced areas who can help lead our business forward through the conceptualization of that latest information. The leaders' concepts must be embraced by the entire staff team to the extent that it permeates and unifies every process of the operation, from the making of clothes, to visual merchandising and communication with our customers and the outside world.

Once that concept is recognized, we can then take the feedback from our stores and sales outlets around the globe, and use that to further perfect our concept, to deepen and/or accelerate the processes of clothes creation.

In order to bring this concept creation to reality, we want to challenge the potential and capabilities of all of our stores be they 33 square meters or 3300 square meters in size.

Gather and conceptualize global information, ensure perfect success through business adapted to individual nations, cultures and tastes.

No company in the world has yet achieved this.

To gather and conceptualize information world wide and then to apply that in the most appropriate fashion to suit national tastes, culture - we believe that no firm in the world has actually realized this so far and that is what makes it so exciting and attractive.

The only way to leap ahead

UNIQLO looks beyond the SPA, bringing the entire world into focus

The concept drives all

Progress towards manufacture and retail of concept oriented, information driven clothing.

Finally, if we are to make a great leap forward, I believe that this is indeed the only way forward for us as a company.

UNIQLO must become an information-driven manufacturer & retailer of clothing that extends beyond the reach of traditional SPA formats, that is entirely concept driven and that brings the entire world into focus.

Thank you.