

Overseas Operations, M&A: Main Tools for Further Growth Aiming at ¥1 Trillion in Sales with a “Declaration of Global Quality”

Interviewer: Okabe Hiroshi

FAST Retailing, the operator of the UNIQLO casual clothing retail chain, is widely known for helping the price-busting trend to take firm root in Japan. After rapid and steady growth in the Japanese market, the retailer is now shifting its main target to the global market by adopting the “Declaration of Global Quality,” removing the widespread corporate image of a supplier of cheap clothing. Fast Retailing has begun offering quality products in the international marketplace. Drawing strong public interest is to what extent the company will be able to promote the new quality-oriented image in the US, European and Asian markets. Leading the UNIQLO initiative is 43-year-old President and COO Tamatsuka Genichi. The sportsman, who once advanced to the college rugby championship final and played for Singapore’s national team, says Fast Retailing aims to achieve ¥1 trillion in annual sales by 2010 with an aggressive expansion strategy in overseas markets and M&A activities. He talks about his views on the growth strategy of Fast Retailing, one of Japan’s fastest growing firms, except for those in the IT sector.



The first UNIQLO shop in the United States is going to open this autumn. Your active overseas operations are attracting public attention. What is your basic management strategy?

Tamatsuka: Broadly speaking, there are two main goals in our overseas operations. Domestically, we already have 680 stores, with total sales reaching ¥380 billion. We are aiming to acquire about 10% share in the ¥6-7 trillion domestic casual clothing market. There is still great room for us to open new stores in Japan, thus promising further growth in the domestic market. In the longer term, however, geographical expansion is indispensable for UNIQLO’s future. I believe market expansion in Asia, centering on China, as well as those of Europe and the United States, is a “must” for our growth.

The other purpose of our overseas operations stems from concerns that our sustainable growth in the domestic market cannot be secured without dramatically strengthening the UNIQLO brand itself. We are seeking to bolster our basic capabilities of product development, marketing, manufacturer-cum-retailer know-how and fostering human resources. In order to attain these goals, competition within the Japanese market alone is not sufficient because the productivity of Japanese retailers is not nec-



essarily high and the domestic market has been protected from foreign competition by government regulations. What is important for ensuring growth in the domestic market is to build up internationally strong enough capabilities.

Experts on product development, store designing and marketing, who are globally competitive in the area of clothing, are largely concentrated in the United States. Organic links with those people, I believe, will help us enhance our product quality and visual merchan-

dising (i.e. making products look attractive), thereby remarkably improving our abilities to compete in the world market. Today, we are still nothing more than a “great domestic player.”

Overseas Hurdles Still High

You started opening stores in Britain and Shanghai four years ago. Your company has since amassed experiences in overseas operations.

Tamatsuka: We have learned many things – essential things for doing business abroad, such as how to establish a distribution system, train employees and minimize investments. At the same time, however, we feel the hurdles are still high when we try to win the hearts of consumers in fierce competition with local peers in the marketplace where the UNIQLO brand is not so popular. The capabilities of our products and brand are at present so insufficient that we cannot compete well with such rivals as Gap, the Limitedbrands and Swedish-based H&M. Leveling up such capacities in a short period of time will lead to the sustainable growth of the UNIQLO brand in the domestic market as well.

Under the “Declaration of Global Quality” announced last September, you have been pushing ahead with the strategy of emphasizing both low prices and high quality by offering cashmere sweaters at relatively low prices, for example. You are trying to challenge the global market with these two pillars, aren’t you?

Tamatsuka: Quality is an important factor that may put us at an advantageous position in international competition. As far as textiles are concerned, Japan has powerful materials manufacturers such as Toray Industries and Kurabo Industries. Taking advantage of these makers, we established a system in which we jointly provide materials in large lots to Chinese partner plants at competitive prices. A combination of good materials and precise product management ensures the production of high-quality goods and helps boost our competitiveness. However, such a system alone is not sufficient when we try to win the severe marketing race in this industrial sector. Stores must be fun to visit. We also need to respond quickly and reasonably to the latest trends and designs. Such performances greatly affect the attractiveness of products and the strength of brands, and when combined with high quality, we can compete well in the global market as a Japanese casual clothing brand.

First US Shop to Open This Autumn

Please explain your plan to open stores in the United States, the world’s largest market. China is also drawing keen interest as a vast consumer market rather than a production base.

Tamatsuka: We are planning to open two or three stores in New Jersey in September and October. This is a test



Photo : Fast Retailing Co., Ltd.

operation aimed partly at collecting responses from US consumers. While operating these shops for around one year, we will look at ways to achieve rapid expansion in the US market. We will consider the pace for opening new stores in the years ahead.

We also see China as a very important market for us. Two and a half years have passed since the first store was opened in Shanghai, and we have learned a lot there. By realigning factors to win in the Chinese market once again, we intend to open stores in Hong Kong this autumn. We plan to open stores in other Chinese cities, as well. As a consumer market, China is now one step short of maturity. Although UNIQLO clothes are surprisingly cheap in Japan, there are many much cheaper casual clothing brands in China. Low prices are not so attractive in China, and we have no intention of joining a price-cutting race. We believe it is all the more important to offer good quality one-rank higher products to Chinese consumers with determination to compete with the strength of our brand.

Transborder M&A activities

In order to boost annual sales to ¥1 trillion by 2010, Fast Retailing needs to achieve 20% year-on-year sales growth in the next five years. Such an ambitious goal seems unattainable with the current Japanese economy and persistently sluggish consumer spending.

Tamatsuka: As our three main pillars for future growth, we have the domestic casual clothing market (where we seek to achieve a 10% share), greater overseas operations and capital participation and alliances with other brands. As part of such efforts, we have acquired NELSON FINANCES S. A. S., the French developer of the casual clothing brand *COMPTOIR DES COTONNIERS*. We are considering M&A strategies from a global angle, not simply from a Japanese viewpoint. Specifically, we are examining whether synergistic effects can be created from

our brand and targeted companies as well as the growth potential of those companies. We will promote transborder M&A activities.

The principal aim of M&A activities is to maximize our corporate group's value and attain the 2010 goal. There is another important purpose. Last year we acquired an equity stake in the US apparel brand *Theory*, which has a manufacturing base in New York. It also has in-house designers, and supplies its goods to almost all the department stores in the United States. The capital participation in *Theory* thus assures us of a variety of skills, personnel and information. The presence of the *Theory* platform also contributes to the operation of UNIQLO stores in the United States. COTONNIERS can also become the platform in Europe because it has some 180 stores in France. The concept of COTONNIERS can spread to Japan and other Asian markets only after we make a joint investment in the French brand.

It Is Wrong to Resort to Defensive Measures

Your strategy calls for utilizing M&A as part of an aggressive management policy. In Japan, however, worries about M&A are growing strong among businesses. Many corporate executives are taking measures to thwart hostile takeover bids for fear their firms may be acquired by foreign investment funds.

Tamatsuka: It is not advisable for corporate managers to only focus on the defense of their companies. Stock companies cannot exist without investors. Executives are essentially required to produce profits for investors if their companies have gone public. Cross-shareholdings among Japanese businesses have declined sharply for the last three to four years, but I wonder how many Japanese companies are really committed to raising corporate value. Unlike US and European businesses, many Japanese companies do not appear to be managed fairly and properly, in the right way of walking the royal road. Corporate Japan still has distortions. Stakeholders seek corporate growth, and once a corporation stops growing, "metabolism" occurs in such forms as the reshuffling of top executives, resulting in the reorganization of businesses and greater movements of workers. The minimum necessary measures to shield corporations from takeover bids such as poison pills should be discussed under such a framework, yet I think it is wrong to resort only to defensive measures. The most effective defensive step is to boost corporate value.

You need to gather a number of competent personnel if you want to promote overseas operations and M&As. How do you plan to secure such personnel?

Tamatsuka: I think all rapidly growing companies are taking similar measures. We hire about 200 university new graduates every year while at the same time conducting mid-career recruitment of professionals in a variety of areas.

Personnel are everything in M&A activities, overseas operations, product development and business systems. Our company hires professionals with backgrounds in retailing, investment banking, consulting and manufacturing. I am conducting interviews with those people myself every week.

Attractive Japanese Consumer Market

Personal consumption has remained stagnant for years in Japan although some signs of recovery can be observed nowadays. From the viewpoint of the consumption forefront, how do you assess the current state and future of consumer spending?

Tamatsuka: From the macroeconomic standpoint, explosive growth is unlikely in personal consumption such as the double-digit expansion seen in the era of high-economic growth. Given that the retail market in Japan stands at ¥140-150 trillion annually, or the world's second largest after the United States, a steep year-on-year fall of 20-30% will not occur, despite the rapidly declining birthrate. The problem is that consumers are volatile, smart, selective and demanding about goods and services. There are about 30 million people living in the Tokyo metropolitan area, eating similar foods, watching similar TV programs, reading similar newspapers and earning similar amounts of income. Such a market cannot be found in any other part of the world. The problem is

Fast Retailing Co.

Fast Retailing, manufacturer and operator of the UNIQLO store chain, handles low-priced casual clothing that has been realized through an integrated management system ranging from product planning to production in China, distribution and retailing. The company grew rapidly in the latter half of the 1990s on the explosive popularity of its fleece clothing using materials developed for NASA. Given the recent slack growth in sales, however, the company has declared an end to

offering low-priced clothing. It is now seeking to eradicate the image of a retailer of cheap products by offering low-priced clothing of high quality materials such as sweaters made from Inner Mongolia-produced cashmere, jackets of Polish down, Italian-spun merino and T-shirts made of precious ultra-long cotton fibers produced from only 3% of the total cotton output in the world.

Photo: Fast Retailing Co., Ltd.

how to win the hearts of consumers in that vast market. Retailers have good opportunities to grow steadily if they offer goods that can win their hearts.

Looking ahead to the period of 2025-2050, we have no choice but to become pessimistic about the growth potential of the Japanese consumer market. Today Japan has the world's second-largest market, but we have to squarely face the prospect of Japan falling to seventh or eighth place, outstripped by BRICs countries – Brazil, Russia, India and China. In the short term, however, there is no doubt that Japan's consumer market is very attractive, even though personal consumption remains lackluster. The market depends on retailers themselves.

Although it was once touted as Japan's representative retailer, Daiei now faces a managerial crisis. Moreover, Japan's "Big Two" retailers, Ito-Yokado and Aeon, see their growth slackening. As a whole, major Japanese general merchandise stores (GMS) remain sluggish. In contrast, Fast Retailing and other specialty store operators are performing strongly. Does this indicate that the landscape of Japan's retailers has been transformed?

Tamatsuka: I think that only those GMS and specialty stores which can timely provide spurs to consumers can survive the fierce competition. The current slump of big GMS indicates they are not offering goods that can satisfy the needs of consumers. It may stem from structural problems. I think, however, that the question will not be solved even if they reorganize themselves into specialty stores. In order to win the hearts of consumers, they may have to substantially develop new products and make their stores more attractive.

Strategic Links with China Are Important



Your company has close relations with China in terms of production and new sales operation. What do you think about the growing anti-Japan sentiments in China?

Tamatsuka: Japan-China relations have now become inseparable in the field of business, such as the procurement of components and technological cooperation. Therefore, it is important for political leaders to take the leadership in the triangular relations between Japan, China and South Korea from a broader viewpoint. As of 2025, Japan's national power will undoubtedly have become weak. With such a prospect in mind, we need to keep in close contact with China from a strategic standpoint.

You represented Japan's young corporate executives at this year's World Economic Forum (Davos conference). What was your impression of the conference?

Tamatsuka: I took part in the Davos conference because I thought it necessary to look at a variety of things from a broader perspective. Today's world faces a lot of problems such as poverty and the remarkable growth of India and China that cannot be resolved by the United States alone. I was deeply impressed by the serious discussions on how to manage the global issues. British Prime Minister Tony Blair, former US President Bill Clinton, Microsoft's Bill Gates and other dignitaries made speeches on global issues like poverty-stricken Africa and the deteriorating environment in China. My impression was that the global consensus is being formed through such discussions. I regret to say, however, the presence of Asia, including Japan, China and South Korea, still appeared to be rather small at the international conference. **J.S**

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