FAST RETAILING CO., LTD

Global Expansion Strategy

Huong Pham, Jacquelyn Saunders, Jingli Fan

BACKGROUND

Ogori Shoji Co. was established in 1963 by Tadashi Yanai, later changed to Fast Retailing Co., Ltd in 1991. It's currently headquartered in Tokyo, Japan. Fast Retailing is Japan's biggest clothing retailer with 34,503 full-time employees by February 2015 (Fast Retailing, 2015). In 1984, Fast Retailing opened the first Uniqlo store in Japan and then built a chain of suburban roadside stores. With the big success of Uniqlo, Fast Retailing continued to obtain other clothing brands, such as: GU, Theory, Comptoir des Cotonniers, Princesse tam.tam and J Brand. Each of the brands has different concentrations, for example the Uniqlo brand focuses on high-quality casualwear, while GU is a low-priced casualwear brand. The 2014's revenue was approximately 1,380 billion Yen (Fast Retailing, 2015).

International markets are key drivers of growth for Fast Retailing. The company has expanded to the global market with approximately 623 stores worldwide, located in countries such as: United Kingdom, United State, China, South Korea and other parts of Asia.

MISSION, VISION AND VALUES

Fast Retailing has two mission statements "*To create truly great clothing with new and unique value, and to enable people all over the world to experience the joy, happiness and satisfaction of wearing such great clothes*," and "*To enrich people's lives through our unique corporate activities, and to seek and to grow and develop our company in unity and society.*" Both of these are customer-oriented missions that allow the company to have a certain degree of flexibility. Fast Retailing, as a whole company, does a very good job of making sure each of their brands, along with all of their employees understand their mission and improve it.

The mission statement is consistent with the vision of the company "*Changing clothes. Changing conventional wisdom. Change the world.*" Fast Retailing is keen to pioneer in the retail industry by having a strong commitment to provide high-quality clothes and creating joy and happiness for its customers. In order to stay as a pioneer, the company also realizes the importance of embracing innovation and challenge, one way that they do this is to respect and support the individual growth within Fast Retailing, which will help to enrich the diversity and generate more ideas.

Fast Retailing continues to succeed because they keep the company's focus on the customers. One of its values is to approach issues from the customers' perspectives. This gives customers a relation to the company that they typically do not get. In addition, Fast Retailing has a strong commitment to ethical standards and correctness, which is supported by many people. As Fast Retailing continues to meet and exceed expectations, their company continues to grow and demand continues to increase.

EXTERNAL ANALYSIS (PESTEL AND FIVE FORCES)

POLITICAL FACTOR

Since the Fast Retailing Company operates its business worldwide, global political factors greatly influence the performance of its sales. For example, in 2012, Many Japanese companies in China suffered damage in anti-Japanese protests due to the dispute of islands in the East China Sea. Fast Retailing announced the closures of 42 of its Uniqlo stores in China temporarily (Reuters, 2012). Also, the stock price of the company dropped by 7% during that disputation.

ECONOMIC FACTOR

After the recent economic upturn in the US economy, there is a higher demand in the consumer market for retail goods. Therefore, companies expect to increase their sales and market value by opening more retail stores. Fast Retailing plans on doing so by opening around 500 new stores annually and expect roughly $50 billion in sales and $10 billion in profit by 2020.

SOCIO-CULTURAL FACTOR

Due to a variety of social changes, trends indicate that a large amounts of customers prefer to use social media such as Facebook and Twitter to receive their daily news. This is a great opportunity for Fast Retailing to use social media to promote its brand and communicate with both existing and potential customers.

TECHNOLOGICAL FACTOR

The advancements in technology bring consumers' conveniences, such as online shopping. For example, Fast Retailing provides a wide range of choices online in addition to what it sells in-store. They also offer different options of deliveries based on the preferences of customers.

ENVIRONMENTAL FACTOR

Typically, the process of manufacturing clothes will waste large amounts of water, energy, and chemicals. To minimize waste, in June 2013, Fast Retailing implemented a pilot project sending out its energy diagnostics specialists to all factories to look into any inefficient processes in their clothing production.

LEGAL FACTOR

The import taxes and regulation of different countries have hampered aggressive growth on Fast Retailing. For example, the Chinese dollar had raised 20% in the recent year, which has given Fast Retailing a lot of pressure to minimize the production costs of their clothing.

THE THREAT OF ENTRY

Due to the barriers to entry from high capital requirements, high product differentiation, and low governmental regulations in the apparel retail/department store industry, there is a moderate threat of entry from new competitors. This climate makes it difficult for new start-ups to open competing stores, but easy for existing companies to expand. Fast Retailing already enjoys a large market share and brand strength in the industry.

THE POWER OF SUPPLIERS

In this industry, the power of suppliers is high due to their power to increase the price of relevant inputs, like textiles (raw materials), factory wages, etc. On the other hand some companies are virtually unaffected by this power due to long-term relationships with suppliers, an attribute attained by Fast Retailing. This power also depends on whether a company has ownership over its different levels of production.

THE BARGAINING POWER OF BUYERS

The bargaining power of buyers is very low in this industry. Individually, customers can't bargain with sellers for a better price in-store, but as a whole, customers can demand high-quality products at affordable prices. With a relatively low number of competitors in this industry, consumers have few choices where to buy clothes from, giving the advantage to the merchandisers to set the prices.

THE THREAT OF SUBSTITUTES

There are a high threat of substitutes in clothing industries. There is a tendency in retail to not specialize in one good or service, but instead deal in a wide range of products and services, meaning what one store offers you will likely find in another. Retailers who offer uniquely differentiated products will have the advantage in this industry force. Alternatively, the customer's cost of switching between fashion brands is low. For example, a customer can choose between equivalent clothing merchandisers from brands such as Mango, Zara, H&M, etc.

THE INTENSITY OF RIVALRY

There is a high level of rivalry between companies within the industry. Retailers typically will face stiff competition. There is a slow rate of market growth within the retail market so firms must fiercely compete with one another for a larger market share. Recently, customer loyalty has become an important factor in maintaining a sufficient market share, so companies have resorted to offering incentives like memberships, frequent flier miles, and other special services to reduce the cutthroat pricing competition typical to this industry.

INTERNAL ANALYSIS

RESOURCES

Fast Retailing has a greater power on its physical, financial and human resource. For the physical resource, it has a long-term relationship with its partners' factories in China, which makes Fast Retailing reliable in terms of clothing production. For financial resource, its financial assets totaled ¥213.7 billion at the end of May 2015 which had increased over 10 percent from previous year. For human resource, it has its 'Takumi' team to corporate with partner factories and confirm these standards for all Fast Retailing products.

CAPABILITIES

Fast Retailing's dynamic capabilities allowed it to redefine the markets for latest fashion. Unlike Zara and H&M bring the latest fashions to the public quickly, ordering new lines many times a year. By contrast Fast Retailing sells only around new 1,000 items per year, and makes up for the narrowness of its offering by selling the same item in many colors.

COMPETENCIES

Fast Retailing's core competency is to seek a sustaining advantage as a low-cost company within global markets. To be specific, it decreases its operating cost by minimizing store operation costs such as personnel expenses and rent. Also, it negotiates directly with materials manufacturers, to attain the top-quality materials at low cost.

SWOT ANALYSIS

See Exhibit 1.1 for more information.

THE STRENGTHS OF FAST RETAILING

Fast Retailing was founded over 50 years ago and it has become one of the biggest clothing merchandiser in the world, creating a strong brand name. Due to the facts that: Fast Retailing always put their customers first to ensuring customer loyalty, having complete control on its production cost, and being able to set prices, Fast Retailing has found themselves in a very good financial position with international sales reaching ¥400 billion and an operating income of ¥35 billion.

THE WEAKNESS OF FAST RETAILING

Due to launching products based on the four seasons, Fast Retailing, like any other retail company, limits customers to choose products during the time it is released, as they typically won't see the product again after a few months.

THE OPPORTUNITIES OF FAST RETAILING

After several years of "clean-up" after the recession, the economic outlook for the United States in 2015 is finally looking up. Manufacturing production has increased five percent over the past twelve months, which has led to an increase in revenues. Although true, US Federal Reserve may launch Quantitative Easing (QE) in order to stimulate the economy and therefore many investors may believe that it is a great time to invest.

As technology increases, the demand for online retail will give Fast Retailing another way to target their customers. This allows the company to meet specific needs of people and therefore gives Fast Retailing the upper hand. In addition, trends indicate that a large amount of individuals prefer to use social media, such as Facebook and Twitter, to receive their daily news. This is a great opportunity for Fast Retailing to use social media to promote its brand and communicate with both existing and potential customers.

THE THREAT OF FAST RETAILING

There is a tendency in retail to not specialize in one good or service, but instead deal in a wide range of products and services. This means that what Fast Retailing offers you, you will likely find in other retailers such as Mango, Zara, H&M, etc.

In addition, as Fast Retailing operates all over the world, it is exposed to the fluctuations in foreign exchange rates. If there is the inflation of one country's currency, Fast Retailing may incur losses in the future due to transactions in this currency. There are also many other unpredictable events that may affect their sales being an international company. For example, the anti-Japanese protest in China caused Fast Retailing to lose 7 percent of its market value.

MERGERS AND ACQUISITIONS

Fast Retailing's policy on mergers and acquisitions tries to further increase the sales and profitability of the group. Their first objective "to acquire businesses overseas and in new markets to strengthen our business platform." Mergers and acquisitions allow them to expand their retail store network, and obtain more talent in new markets. Their second objective is "to acquire brands with the potential for global development and thereby strengthen and expand our portfolio." They have acquired a variety of fashion brand and actively make plans to acquire more.

Fast Retailing also has set criteria and a decision-making process to determine if a proposed merger or acquisition will benefit the company. The two main criteria for assessing a merger or acquisition are growth and profitability. The condition that arises from growth is that if the proposed brand has a potential to successfully develop at a global scale. On Fast Retailing's site they state, "If the brand has a solid underlying concept, we can actively share our infrastructure--the financial resources of the FAST RETAILING Group; our know-how in store operations, production management and sales planning, inventory management, and other areas; production systems in China; and information systems--and work together to realize high growth and profitability." (M&A Strategy, 2014). This signifies the importance of thoroughly assessing a brand so that it will be within these guidelines.

Another criterion that Fast Retailing states is whether the target company's management shares the same values of Uniqlo and Fast Retailing. Fast Retailing states their values as "a spirit of innovation and challenge that will drive the company to create large, highly profitable, and high-growth, global businesses." Beyond these more intangible reasons for initiating a merger or acquisition, when making investment decisions these proposals are carefully examined by Fast Retailing's board of directors and the final decision is determined on an assessment of investment returns and synergies.

To give a short history on the major mergers, acquisitions, and investments that Fast Retailing has made, beginning in January 2004. On that date, Fast Retailing acquired on equity stake in Link International Co., Ltd., which is now Link Theory Japan Co., Ltd. (developer of the luxury brand, Theory). In March 2005, they acquired Onezone Corporation, a large Japanese shoe retailer. In May 2005, they acquired management control of Nelson Finance S.A.S, the developer of the Comptoir Des Contonniers brand. In 2006, there was a substantial amount of business activity for Fast Retailing;

in February they acquired Petit Vehicule S.A (developer of the Princesses tam.tam brand), in March they established G.U. Co., Ltd. (a budget clothing brand),

In April 2016, they invested in Cabin (a women's clothing brand) and ended an operating alliance with them, and in November they invested in View Company Co., Ltd. (a footwear manufacturer, wholesaler, and retailer). In 2007-2009, Fast Retailing made a series of takeover bids to turn Cabin, View Company, and Link Theory Japan into subsidiaries. Finally, the most recent major acquisition by Fast Retailing, in December 2012, they acquired J Brand Holdings, LLC (another popular luxury clothing brand). Relatively recently, in February 2014, Fast Retailing went into talks with J. Crew (a very popular American clothing brand) to wholly acquire them, potentially transforming them into a global retailing behemoth, but the deal fell through due to a variety of reasons, including the talks becoming public knowledge and J. Crew's asking price of $5 billion (Strachan, 2014).

Fast Retailing has had a very successful history of different mergers and acquisitions, awarding them a net worth of over $36 billion, but like many other great companies, they have made a series of unsuccessful investments that failed to yield adequate profits.

BUSINESS STRATEGY

Fast Retailing's business strategy, from a glance, seems to adhere to a cost-leadership strategy through a variety of different factors. Their strategy focuses on: developing products of exceptionally high quality, becoming Japan's top brand by expanding market share, and expanding Uniqlo internationally.

Fast Retailing tries to ensure the development of products of exceptional quality by refining their "Specialty store retailer of Private label Apparel", or SPA, which allows them to have complete control over their entire business process from initial planning and design to raw material acquirement and sales (Uniplo Business Model, 2013). This strategy is based on their goal to "create clothing with new and unique value and to satisfy customers worldwide," and they do this through: product development based on customer feedback, material procurement from around the world, and expert technical guidance at factories. Customer opinion is regarded very highly in Fast Retailing's product development. Their customer center receives over 90,000 comments annually and they are used to refine their various clothing lines. An example of this is their HEATTECH products; customers asked for a softer fabric, a function to keep skin both warm and prevent dryness, and an expanded range of colors and Fast Retailing used those comments to improve their products as such. Fast Retailing's "Material Development Team" aims at acquiring high-quality material at low costs by directly negotiating with suppliers and making bulk purchases on a global scale. An example that Uniqlo provides is their superior quality denim, a fabric that is known to be comfortable and of high quality. Their fabric is woven, dyed, and manufactured to Uniqlo's ordered specifications all by a global denim manufacturer, called Kaihara Co., Ltd, that provides high quality denim at affordable prices, specifically for Uniqlo.

Finally, Fast Retailing is challenged with producing millions of products with standardized quality and as a result they need to implement quality control across all their factory production technologies and management. To combat this challenge, Uniqlo created the Takumi Team, a team of technical specialists with many years of experience in the Japanese textile industry, to be sent to Uniqlo's partner factories in China to aid in technical instruction and share their wealth of experience. They also send supervisors from their Shanghai based Production Department weekly to the factories for quality assurance and to check the production progress.

Fast Retailing aims to make Uniqlo become Japan's top brand by boosting their market share in promising urban areas and utilizing their successful large-scale store model. Japan's department store, supermarket, and apparel retail sales market was totaled at ¥10.7 trillion ($85.9 billion) in 2007 and in 2013 Uniqlo had a 6.2% market share. Uniqlo has traditionally been underrepresented in major urban areas due to its origin as a chain of suburban roadside stores, but since their entrance into in-mall stores in 2004, they have been transforming into a high-quality streetwear brand. They have continued to open more large scale locations in major cities throughout Japan. They also strive to achieve this by using their large-scale store model that maintains efficiency and boosts total floor space, drastically increasing their sales per square foot.

Uniqlo's international expansion has yielded them a substantial increase in overall sales. At the end of 2014, Uniqlo projected international sales of ¥400 billion, operating income of ¥35 billion, and an increase to 632 store locations outside of Japan. Currently, most of their favorable new-store expansion is attributed to the Asian region, but they now focus their attention on increasing their presence in the US (40 locations currently). Aside from improvements in their financials and number of locations, Uniqlo is trying to build their brand through the creation of flagship stores, which have become a vital part of their strategy to build an international store network. These stores are used as showcases to promote the Uniqlo brand and its high quality clothing. So far they have 11 located in: Paris, London, Shanghai, New York (Soho and Fifth Avenue), Osaka, Seoul, Taipei, Ginza, Berlin, and Hong Kong.

Looking at these various factors that make up Uniqlo's business strategy, it seems that they utilize cost-leadership by striving to have the lowest cost of operation in the industry to maintain their competitive advantage, which will be discussed in detail later. They also utilize differentiation with the unique qualities of their products against other competitors in the industry.

GLOBAL STRATEGY

Fast Retailing's major overseas targets include the United Kingdom, the United States, Europe, Hong Kong, China and Korea. Among these locations, Hong Kong and South Korea are the fastest growing markets. The previously established businesses in the United Kingdom, Europe, the United States and China are still growing, but not as much as the company has planned. The main reasons for this slow progress are the lack of patterns in their design and the limited media coverage in the foreign markets. According to Stephen Dacus, the Senior Vice President of overseas operations at Fast Retailing, the company needs to have a global strategic plan with the following key points if it wants to grow faster (Dacus, 2010).

LEVERAGE THE JAPAN-BASED TEAM

Fast Retailing wishes to utilize the great resources in their Japan-based team at a global level. It will require a global mindset in the mechanism of the company. Currently, there is widely held attitude that Uniqlo's domestic Japanese operations and the overseas operations are separate. Dacus emphasizes that the headquarter executives and employees need to discard this attitude. Teams across all functions at different locations need to act as one because Fast Retailing is a global business.

REPLICATE KEY SUCCESS FACTORS

In order to gain success at foreign markets, Dacus thinks that it is critical for the overseas operations to replicate the factors that have created the big success of Uniqlo in Japan. There are three significant factors: product, customer service and store environment. Dacus refers product to the quality, price, style and range of the clothing. He also thinks that it is important for the foreign customers to experience the same standards of superior customer experience in store as Japanese customers receive at the domestic stores. This is also consistent with the company's mission statement of providing high-quality clothes and creating joy for the customers.

CREATE STRONG LOCAL TEAMS

In most of the oversea businesses, expatriate Japanese managers often run the top management. This could make it difficult for the company to have a deep understanding of the local market and the culture here. Thus, it is important for the top managers to build strong relationships with the talented individuals in the local markets. One way to achieve this is to establish an alliance with a strong local agency. For example, Fast Retailing partnered with Lotte in South Korea to help them flourish in the local market.

BUILD BRAND POWER

Although Fast Retailing's clothing brands are very popular in Japan, they are less well known in the foreign markets. It is critical to raise awareness of the brand, especially the Uniqlo brand. Dacus figures that the most efficient and profitable solution is to open flagship stores in major cities. Flagship stores are a great way to help customers to experience the unique culture of Uniqlo and other brands though the visual merchandising in store. For example, Fast Retailing opened a massive global flagship store in New York's SOHO in 2006. This flagship store is located in the international fashion capital of the world and received good feedback from the customers.

ORGANIZATION LEADERSHIP AND DESIGN

With a size of a global business, Fast Retailing adopts the multidivisional structure (M-form), which includes distinct strategic business units in different nations. Each unit is operated more or less independently from one another and led by a CEO. Fast Retailing has overseas operations in France, Hong Kong, Thailand and other places. A CEO or a general manager runs each of these. The CEOs are responsible for the daily operations of the overseas businesses and they report to a board of directors. The head of this board is the CEO for the entire corporation, Mr. Tadashi Yanai. The corporate office is supported by board of auditors and many other committees, such as: Human Resources Committee, IT Investment Committee and corporate R&D (Fast Retailing, 2014).

Since Fast Retailing is keen to pioneer in the clothing retail industry, the company also adopts the organic organization. Using this type of organization helps the company to boost the innovation and creativity, which helps to upgrade core competencies in R&D and marketing. Most of the decisions are made by the CEOs of the overseas businesses and the global communication network is run smoothly at Fast Retailing. As result, Fast Retailing is able to operate successful R&D centers in Tokyo, New York and Shanghai. It also has long-term plan of opening additional R&D centers in Paris, Los Angeles and London.

COMPETITIVE ADVANTAGE

Fast Retailing Company, Ltd. has been a successful company which has expanded from one brand to now seven brands. This success and expansion has allowed Fast Retailing Company to continue to be very successful. By adding additional brands to the company, Fast Retailing Company was able to focus each brand on one set customer, and this is where Fast Retailing company created their competitive advantage.

Fast Retailing has been successful with their competitive advantage strategy over the last fifty-two years. One major reason why they have been so successful is due to their product differentiation within their brands. As stated as an example previously, Uniqlo is focuses on high-quality casualwear, while GU is focused on low-priced casualwear. These two brands alone work at two different ends of the spectrum and allow for differentiation for customers. Fast Retailing has set up their company in a way in which they cover each spectrum and can be successful no matter the interest or circumstance of the customer. They have created brands who concentrate on the different aspects in which interest customers, such as, quality, price, and all in all, differentiation. This is what has given Fast Retailing a competitive advantage and has allowed them to be so successful.

RECOMMENDATION

After researching about Fast Retailing Co., Ltd. and Uniqlo, we believe that they are both a good company and brand. With that being said, there are a few recommendation that we have to improve the company.

First, we believe that they should increase their global presence. We believe that this would be very beneficial to them. Their international expansions have increased their revenues substantially and have allowed for a larger and more versatile market. We especially think that they should look into mergers and acquisition in the United states as the retail industry is huge. Second, we believe that they should look to diversify their mergers and acquisitions into other industries, of course within reason. This would allow Fast Retailing to increase their presence and diversify their company. Third, we believe that they should continue to focus on differentiated product offerings. They should also including certain collaborations with celebrities and other clothing companies to increase their presence in certain countries to increase trust and reliability. Fourth, we believe that they should decrease focus on expansion in Asia due to their already large market share there. Lastly, we believe that they need to created/hire a special department/team to create an effective contingency plan. This would be used in instances such as when China experienced anti-Japanese protests and Uniqlo had to temporarily close forty-two of its locations in China. We believe that an effective contingency plan would be an important assent to the company, especially being international, and not know when problems may arise, but always have a plan when they do.

With all that being said, we believe that Fast Retailing Co., Ltd. is an overall outstanding company and that they should continue to expand. Their success over the last fifty-two years is extraordinarily impressive. We believe that Fast Retailing Co., Ltd. can continue to both grow and be succeed.

Appendix

Exhibit 1.1

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<td>STRENGTHS

Strong brand name
Good financial position
Customer loyalty
Low cost producer (cost leadership)
Bargaining power of customers is low

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<td>WEAKNESSES

Product launching based on the four seasons

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<td>OPPORTUNITIES

Positive outlook of the United States market
Growing demand of online market
Innovations in information technology such as social media

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<td>THREATS

The intense competition of clothing industry (substitutes)
The import tax regulation
The anti-Japanese protest in China (or other unpredictable events such as this)

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