

Fast retailing: an analysis of FDI and supply chain management in fashion retailing

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“Fast Retailing: an analysis of FDI and supply chain management in fashion retailing”

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Abstract

Some recent studies show cases of business expanding in foreign countries that do not go through the development process. These companies are said to be “born global”. Why do these companies choose to operate in a foreign country before developing in a home country? What does it mean to become internationalized before having become successfully established? For answering these questions, Fast Retailing Co., Ltd., will be used as a case study.

Key words

Born global, Advantage, SPA, Assortment,

1. Introduction

In existing studies, the internationalization of a firm is considered to be a very long process. First of all, a firm is established. Next, a firm grows in a domestic market and becomes a large company. In this process, the advantages from the establishment are strengthened. As a result, a firm is able to survive in a domestic market and foreign markets. The firm has more advantages than the firms from the host country. Through this process, a firm operating in one country becomes a multinational enterprise.⁽¹⁾ Jones (1995, p.35) refers to classic multinationals as this type of multinational. However, some recent studies show cases of businesses expanding (the added value of activities from research and development, production, and sales) in foreign countries that do not go through this development process.⁽²⁾ These companies are said to be “born-global,” and many researchers have already studied the phenomenon (Rennie, 1993; Andersson and Victor, 2001; Knight and Cavusgil, 1996; Madsen and Servais, 1997; Oviatt and McDougall, 1994). The present article will explore why these companies choose to operate in a foreign country before developing in a home country and what it means to become internationalized before having become successfully established.

Uniqlo, a business of the Fast Retailing Co., Ltd., will be used as a case study for answering the above questions. Fast Retailing is a specialty store retailer of private label apparel (SPA). It engages in the design, production, and sales of clothes. Uniqlo is the name of the stores in the chain and the brand of the clothing. Fast Retailing has two advantages. Most “born-global” companies are high-technology industries. Fast Retailing, as a clothing retailer, is a low-technology industry. We can contribute to the research of “born-global” companies by studying low-technology industries. Fast

Retailing does not manufacture in Japan. They manufacture abroad without the advantages of home-country production. Why did Fast Retailing tackle the foreign production without the advantages? In this point, we will answer through the case study.

First, the objectives of this paper are summarized by examining existing studies of “born-global” companies and the advantages of multinational enterprises. Second, two technical terms, necessary to this study, are defined. The terms are supply chain system (SCS) and specialty store retailer of private label apparel (SPA). Third, Fast Retailing’s Uniqlo is used as our case study. Fourth, Uniqlo is analyzed. Finally, the discussion is summarized, and future subjects are outlined.

2. Internationalization of Firms: Its Advantages

In this section, firstly, we will be clear a problem that the recent research of the born-globals includes, and show a direction we seek in this article. Next, we explain that the analysis of the “born-global” concept allows a discussion of the issue of the advantage of multinational enterprises from a new perspective.

(1) Born-global

There is a tacit assumption that the success of a firm depends upon a domestic market. It is worthwhile to consider the reasons that justify labeling a domestic market as the first market. Johanson and Vahlne (1977, p.24) defined psychic distance as the sum of factors preventing the flow of information from and to a market. Examples are differences in language, education, business practices, culture, and industrial development. For these

reasons, it is assumed that a firm is born and grows in a domestic market.

Next, a firm that grows in a domestic market will be forced to decide (Ansoff, 1965) whether to expand another business locally or to enter a foreign market? If a decision is made to enter a foreign market, the firm will become a multinational enterprise. For example, the following pattern of growth would be typical: a firm exports via an agent; later, it establishes a sales subsidiary and eventually, in some cases, begins production in a host country (Johanson and Vahlne, 1977, p.24). After a manufacturing subsidiary is established, the function of research and development is added (Ansoff, 1984; Omae, 1987).

A situation a firm internationalizes via some steps is a process that gradually reduces the psychic distance to a foreign market. Johanson and Vahlne (1977) considered that the psychic distance was reduced by gaining the knowledge of local market. Their model is called Uppsala (Andersson and Wictor, 2001), which has a spiral form for obtaining knowledge of a local market. The model has the following structure. A company enters a foreign market with some knowledge of the market. Based on the decision, the foreign business begins to operate. The operation strengthens the commitment to the foreign market. Strengthening the commitment leads to an increase in the knowledge of the foreign market. Based on the spiral form, the company gradually rises to the level of internationalization from exporting, having sales subsidiaries and manufacturing subsidiaries, to establishing an R&D function.

However, not all firms gradually reduce the psychic distance through accumulating the experience knowledge, as the Uppsala model shows. Recent research deals with the concept of a company being “born-global;” subsequently, a considerable amount of additional research has examined this concept (for example, Rennie, 1993; Oviatt and McDougall, 1994; Knight and

Cavusgil, 1996; Madsen and Servais, 1997; Andersson, 2000; Andersson and Wictor, 2001). This concept was suggested in the research of Australian companies that have sold their products to foreign countries from their inception. In addition, the origin of the research of “born-global” companies is in the internationalization of small companies. A distinctive feature of research on “born-global” companies is the introduction of a time axis as a new perspective on existing research.⁽³⁾ At the moment, research on “born-global” companies is shifting from the early finding stage to analyses of the general characteristics of this phenomenon. Therefore, the definition of “born-global” companies is supported by quantitative criteria. Knight (1997) defined “born-global” companies in the following manner:

“A firm established after 1976, which has a share of foreign sales of 25% or higher after having started export activities within three years after their birth”

This definition shows some of the characteristics of a “born-global” company. A founder of the company does not have the psychic distance to the foreign market. A “born-global” company starts to sell product in a foreign market immediately after its foundation. It is also possible that a founder would regard his company’s market as global from the onset of the business. He might not distinguish between foreign and domestic markets. This would be an essential characteristic of a “born-global” company. The above is quite unclear. Do you mean, “A “born-global” firm, according to our definition, is a company that skips the developmental step of starting in a domestic market.

However, an adaptation of the quantitative definition we mentioned above has a clear problem. Using a definition that places emphasis on the sales

activity in a foreign market, a firm that internationalizes production and R&D from the beginning is ignored. A “born-global” firm that internationalizes its sales activity (a market-type “born-global” firm) is a good subject for the study of a firm that skips the domestic growth process. However, it is difficult to analyze a situation in which internationalization is skipped. On the other hand, the born-global that the firm mainly internationalizes other activities, such as production, R&D, etc., from the beginning (non-market born-global) presses to transform the step of international process of firm. To explain a non-market “born-global” firm, new logic must be used. We assume that, if such cases are ignored, the phenomenon of “born-global” firms will not be fully understood.

Although Oviatt and McDougall (1994) do not use the term “born-global,” they have a similar concept that they refer to as an “international new venture. The term is defined as follows:

“A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”

If this definition is used, firms that have sales activities, production facilities, and R&D in foreign countries can be included. Therefore, our definition of “born-global” companies will be adjusted to this qualitative definition.

Insert Figure 1(Company growth) around here

(2) Foreign direct investment based on advantages

Research on “born-global” companies has forced a change in the hypothesis

of advantage in foreign direct investment. The hypothesis of advantage is from Hymer's study (1976). A foreign market, because of its diverse environmental elements, makes investing difficult. Therefore, for a firm to operate in a foreign market, it must possess advantages to compensate for the disadvantages of a foreign market, and it must be more profitable than its rivals. This hypothesis, posited by Hymer, is a starting point for the study of multinational enterprises. The hypothesis has been supported for a long time. In the background of Hymer's hypothesis, the following idea exists. If a firm cannot survive the competition in a foreign market, it cannot become a multinational enterprise. In a word, in the discussion by Hymer, the internationalization of a firm equals defeating the competition in a foreign market. Returning to the subject of a "born-global" company, a company that aims at using a foreign market for sales (a market-type "born-global" company), as Hymer calls them, has to be aware of the competition in a foreign market. However, a "born-global" company that operates a production facility and R&D in a foreign country (a non-market-type "born-global" company) does not intend to defeat the competition in a foreign market; instead, it aims to use the advantages of the foreign country's location. For this reason, a non-market "born-global" company does not intend to transfer competitive advantages.

The internalization theory of multinational enterprises explained the formation of multinational enterprises by a concept that internalizes transactions and the locational advantages without assuming the existence of ownership advantages of firm (Casson, 1987, p.33.). The internalization theory of a multinational enterprise shown by Buckley and Casson (1976, p.33) has the following basic framework:

(1) Firms maximize profit in a world of imperfect markets.

- (2) When markets in intermediate products are imperfect, there is an incentive to bypass them by creating internal markets. This involves bringing under common ownership and control the activities which are linked by the market.
- (3) Internalisation of markets across national boundaries generates MNEs.

In the case that the intermediate products that occurs in the value chain cannot well deal with in the market, a firm possesses multiple value activities inside the firm. Such an approach could be called internalization. The location of each activity is determined by locational advantages. When one activity is located in a foreign country and a transaction is internalized, a multinational enterprise is born. The internalization theory explains the formation of multinational enterprises. However, the reason for locating a value activity in a foreign country is dependent on the advantages of a certain location. The focus of the internalization theory is to explain whether a firm trades with a foreign base in a market or within a company. Therefore, the internal theory does not explain the behavior of non-market "born-global" companies. By developing its international business, a "born-global" company wants to transform locational advantages into specific advantages for the firm

Dunning (1988) uses an eclectic paradigm to deal with the transformation of locational advantages into specific advantages. His model uses three advantages of foreign direct investment, namely, ownership, internalization, and location. Briefly explained about the paradigm, in the case that the firm possesses more ownership advantages than other companies, it is more beneficial to the enterprise possessing these advantages to use them itself rather than to sell or lease them to other firms, and it is beneficial that the advantages the firm possesses are termed the locational advantages of host

country, the firm performs foreign direct investments, and then, starts the foreign production. The locational advantages transform the firm as follows. First, the starting point is that the asset advantages that are a part of the ownership advantages are linked with the locational advantages of the host country.⁽⁴⁾ The asset advantages used in the home country are transferred to the foreign country. These advantages are cut off from the locational advantages of the home country and linked with the locational advantages of the host country. As a result, the asset advantages are revitalized. Many kinds of asset advantages are then continuously transferred and revitalized. Dunning defined the organization itself as a transaction advantage (a part of the ownership advantages). The transaction advantages are capabilities that the organization possesses. In other words, they are a kind of organizational capability. In the theory that deals with the formation and development of multinational enterprises, Dunning discovered the importance of asset advantages as well as the capabilities that allowed the organization of multinationals. Non-market “born- global” companies use locational advantages by internationalizing some of their business process. That is, in the analysis of non-market “born-global” companies, a direct relationship between the organizational capability and the locational advantages is important. In the eclectic paradigm, the organizational capability is considered an advantage that permits new combinations between an asset advantage and a locational advantage. In this meaning, a relationship between an organizational capability and a locational advantage is considered. However, a direct relationship between organizational and locational advantages is not considered. The analysis of non-market “born-global” companies focuses on the organizational capability that coordinates the business process, which is developed so that it can use locational advantages.

This point suggests studying the different aspect of the organizational capabilities of multinational enterprises, against the existing researches of the organizational capability that makes the existing asset advantage revitalize to link with new locational advantages. In this point, our research can study one aspect of the advantages given a generic name to the organizational capability of multinational enterprises from the different view from the existing research.

3. The supply chain system and the SPA concept

This section deals with a supply chain system (SCS) for a chain store and a specialty store retailer of private label apparel (SPA), the form of chain store that is the focus of our study. We will explore the methods that a non-market “born-global” company uses to take advantage of its foreign location. Fast Retailing we take up as our case study is SPA, and grew to transform the locational advantages that can gain through internationalizing a part of their business process into their firm specific advantages. (Note: The above is quite unclear. Do you mean, “The Fast Retailing Co., Ltd., will be used as a case study of SPA that took locational advantages to internationalize a part of its business process. Therefore, in this section, we explain that the competitive advantages of SPA stem from its organizational capability to operate the SCS. In this point, first of all, we summarize the existing studies of SCS, and show a necessity of strategic perspective. Following that, the character of SCS is discussed, and the role of SCS and the advantages of SPA are explained.

(1) The existing study of SCS and strategic perspective

A supply method, which is known as the “just-in-time” system, and the

sourcing network for parts used by the Toyota has been very influential as companies develop their own SCSs. An empirical rule used by Toyota is especially important, namely, that “the company result depends on the quality of operation that uses external management resources, including the out-sourcing business.”

From view point of lean operation, Cox (Cox, 1999, pp.167-168) lists eight characteristics:

- (1) Strive for perfection in delivering value to customers.
- (2) Only produce what is pulled from the customer just-in-time and concentrate only on those actions that create value flow.
- (3) Focus on the elimination of waste in all operational processes, internally and externally, that arise from overproduction, waiting, transportation, inappropriate processing, defects and unnecessary inventory and motion.
- (4) Recognise that all participants in the supply chain are stakeholders and that we must add value for everyone in the business.
- (5) Develop close, collaborative, reciprocal and trusting (win-win), rather than arms-length and adversarial (win-lose), relationships with suppliers.
- (6) Work with suppliers to create a lean and demand-driven logistics process.
- (7) Reduce the number of suppliers and work more intensively with those given a preferred long-term relationship.
- (8) Create a network of suppliers to build common understanding and learning about waste reduction and operational efficiency in the delivery of existing products and services

In summary, Cox based his research on the relationship between a

company and its suppliers. He then defined SCS as a pattern of operation that prevents waste and creates value for the customer. Waste can be prevented when the cooperation between a company and its suppliers is at an optimum level.⁽⁵⁾ Cox stresses the unique nature of the supply chain on the operational level and introduces the concept of the strategic level (Cox, 1999, p.168). He criticized the existing research of strategy, which systematically underestimated the importance of a vertical relationship among companies. He mentioned the concept of core competence as the existing research. Cox regarded the concept of core competence as one that was limited to internal technologies and resources that a firm owned and controlled to sustain the success of the business. Hence, Cox considered that the concept of core competence was not able to explain the supply chain that existed between some businesses over the border of firm. Finally, he advocated the expansion of strategic management. In other words, Cox asserted that SCS should be discussed on a strategic level.

(2) Characteristics of a Chain-store SCS

“For a chain store, each commodities themselves are mere parts and materials”. This description is the recognition that is based on the explanation for SCS of chain store.

The manufacturer’s finished product consists of many parts and materials. Hence, customer satisfaction is achieved by connecting the sourcing system for parts and materials with the production system. However, from the viewpoint of a chain store, a manufacturer’s finished product is simply parts, materials, and intermediate goods in the marketing process. Finished products for a chain store are the assorted commodities that customers demand. For this reason, the assortment is an important word. The meaning of “assortment” is

defined as the results of merchandising by retailers. That is, in order to achieve the customer satisfaction, the retailers have to decide the commodities that they sell, and, the price and quality of the commodities. The commodities displayed on the retailers' shop are decided through this choice. We regard the group of this chosen commodities as the assortment.

In summary, a chain-store production system is a sourcing system to make an assortment complete. The quality of a sourcing system determines the results of a chain store. A manufacturer examines the quality and prices of parts and materials for their products while trying to avoid waste. In the same way as the manufacturer, the chain store examines the quality and price of each commodity serving as parts and materials and also wants to avoid waste. In other words, unsold commodities are removed from the shop floor. This tendency to avoid waste in the chain store makes the assortment by the commodities which the customer requests complete. A chain store meets customer demand by offering a complete assortment of goods.

Usually, a sales system is a production system for retailers. Therefore, the sales ability is regarded as a criterion to determine the result of a retailer. However, from the standpoint that regards the sourcing system as the production system, the sourcing system for the commodity, that the chain store adapts, fixes on the sales system of the chain store. Some mottos, for example, such as "high quality, low prices" and "every day low prices," do not reflect a sales system. Rather, the motto expresses something that the customer requires. This is the result of a sourcing system that starts by trying to satisfy the customer. These mottos reflect the assortment that a chain store offers, or, tries to offer.

The core activity of SCS of chain store is "the edition activity of the assortment"(Yoshida,2001). The edition is an activity that retailers consider

combinations of commodities assorted on the shop floor. In other words, the edition is an activity that retailers consider the assortment to meet the customer satisfaction. Thus, the edition activity is the strategic behavior to intend to remove the discrepancy on the final stage of the marketing process, that is, to creation and offer the customer satisfaction. In the other words, to completely remove the discrepancy on the final stage of the marketing process means the creation and offering of the customer satisfaction. The assortment offered by the retailer makes it possible to remove the discrepancy to the customers. Thus, the assortment is the starting point of the marketing process.

To put it concretely, to completely remove the discrepancy that the chain store intends is embodied by the assortment presented the final customers. Realizing this assortment depends on the edition activity for the assortment. Therefore, the edition of the assortment is a ground design to realize the actual assortment of the chain store, and also a strategic subject. If the chain store cannot assort the commodity along the edition of assortment, the edition does not have the meaning. Namely, SCS that the activity to actually source the commodity is a main role is on a strategic importance. So the quality of the capability to organize the SCS decides the competitive advantages of the firm. Consequently, SCS is not simply a chain to supply a commodity. Rather, it is a type of organizational behavior that can eliminate the discrepancies that may occur in the final stage of the marketing process. And the capability to organize the organizational behavior becomes the firm specific advantage®.

(3) Competitive advantages of SPA

Low prices alone do not offer competitive advantages to a chain store. It is easy to use low prices as a basic tactic, but it is only one aspect of an SCS

sourcing activity. That is, this tactics occurs from the non-price competition area. Therefore, after defining the realizable range of assortment, the practicable ability of sourcing in the range is important as the contents of the capability to organize SCS(Yoshida,2001).

The narrower the realizable range of assortment is relatively, the narrower the range of the sourcing activity for commodity is. Therefore, the range and the solutions that the removal of discrepancy is requested are deepened. Inversely, the wider the realizable range of assortment is relatively, the weaker the density of the sourcing activity for commodity is. We can easily image the qualitative difference between the activity that the chain store that has 50,000 items edits the assortment of commodities and the activity that the chain store that has only ten items edits the assortment. This indicates that a chain store that is a general merchant store (GMS) has difficulty building an SCS. GMS overcomes the strategic subject that edits the assortment on shop floor, and is impossible to realize the assortment of commodity along the edition. This shows that the assortment that GMS intends has the high possibility to occur the discrepancy between the chain store and the customers.

The chain store tries to make its own competitive advantages apparent through making it own strategic intent penetrate into each commodities. In the other words, if the chain store will establish the competitive advantages through removing the discrepancy between the store and the customers by editing the assortment and practicing the behavior that assorts actually the commodity along this edition, it will be natural that the intention that makes its own strategic intent penetrate until the production stage of each commodities works. Even if the commodity is the national brand, this intention has an influence on the assortment. For example, when vegetables

are grown, the production does not only aim to secure the supply of vegetables in which the seasonal price variation is large. The contract is regarded as a part of the sourcing activity along its own edition of assortment. That is, the contract does not only include a negative intention that secures the supply, but also a positive intention that realizes the edition of assortment. This point is an essential factor of SCS. Moreover, if the national brand commodity contradicts, or, does not fit its own edition of assortment, it is natural that the commodity is stricken off the assortment. As a result, a private brand is created by the chain store.

SPA is a type of the chain store especially dealing in the clothes, and, a company that edits its own assortment by using the private brand⁷⁾. The assortment by the private brand is key that SPA achieves its own strategic intent. SPA considers the edition of assortment by using the private brands commodity, and secures to source the commodities along with its own intention through building SCS. This gives SPA an advantage over other chain stores.

4. Uniqlo Business of Fast Retailing Co. Ltd.

In this section, we explain the Uniqlo business of Fast Retailing(FR). First, an outline is presented. Second, a history of Fast Retailing is given. Thirdly, we describe 'all better change(ABC)' activity that have had big influence on the management style of FR. Finally, the current status of FR is presented.

(1)Outline of Uniqlo business of Fast Retailing⁽⁸⁾

FR is responsible for its entire business process, from planning to sales. Its casual-wear product brand is Uniqlo. FR operates the Uniqlo chain store.

Uniqlo is the brand of the casual wear and the name of the chain owned by FR. FR widely considers the casual wear. This company does not sell formal wear, such as swallow-tailed coats and evening dresses. It sells goods such as underwear, belts, caps, and bags. In this meaning, the range of items that FR sells is the casual wear, and the items that is necessary to put on the casual wear.

Insert Figure 2 (Fast Retailing's total sales and shops) around here

FR total sales and shops have expanded significantly since it opened in 1984 (see Fig. 2). In 2001, the total sales were 418,500,000,000 yen; the number of shops was 519. The ordinary profit was 103,200,000,000 yen, and the rate of ordinary profit was 24.7%. In 2002, a reduction in total sales is predicted because of the rapid growth in 2001. The estimated total sales for 2002 are 204,800,000,000 yen; the estimated ordinary profit is 38,500,000,000 yen; and the estimated number of shops is 555. FR posted sales and profits gains for 11 consecutive years. The stocks were listed on the second part of Tokyo stock exchange in 1997, and on the first section of Tokyo stock exchange in 1999 (Togawa et al., 2000, p.26). In August 2001, the company employed 1,598 full-time and 10,674 part-time workers.

Insert Figure 3 (Management Principles of Fast Retailing) around here

The corporate philosophy and management principles of FR were developed by Tadashi Yanai, FR founder. The corporate philosophy is expressed in the 23 points listed in figure.3. Most of this philosophy includes the universal and simple contents, and, is true for every company in every industry, and then, internalizes the belief of the founder that 'a matter of course practices usually' (Togawa et al., 2000, p.127)., "FR lists the following 3 points as principal guidelines for Uniqlo business:

- (1) To constantly improve products
- (2) To enforce low-cost operation
- (3) To place the customer first

In its effort to place the customer first, Uniqlo maintains a clean shop and a full inventory and permits the return of goods for three months from the date of purchase. Through keeping strictly these principals of Uniqlo business, FR considers to be able to realize the management that the customer play the leading part, that is, the management that the customer satisfaction is the highest position.

The characteristics of FR's operation are implied by the company name. First of all, Fast means to immediately produce the demands that the customers have on a commercial basis. Also the word reflects the strong wills of the founder that want to be the retailer who has "fast food concept". The idea was to transpose the concept of fast-food companies, such as McDonald's, to the clothing industry. First of all, fast food can be eaten anywhere and anytime. In the same way, the clothes branded on Uniqlo is produced with the aim that anybody can put on at anywhere in anytime. FR products are popular and basic since they are intended for "anybody, anywhere, anytime.

The low prices make the products affordable for anyone. Furthermore, FR markets to all ages with unisex styles. Secondly, fast-food stores offer the same items and the same service all over the world. Uniqlo that is the shop of FR aims to offer the same items and the same service at all of its shop all over Japan. About Uniqlo uses standard layout and operation procedures at each of its stores (Chikae, 2000, pp.110-111). Thirdly, the companies that are operating the fast food chain have the original system of planning, development and sales. Likewise, FR designs, plans, and markets its own products. FR organizes a production network in China and Southeast Asia. FR sells its products at Uniqlo shops that are its own sales network. Fourthly, fast-food companies sell one item in large quantities. In a manner similar to fast-food restaurants, FR produces one item on a large scale and offers it at low prices at all of its stores. This idea is supported by the fact that the inventory is limited to 200 items (Hatano, 2000, p.34). Finally, fast-food companies place a high priority on labor savings. FR builds shops that are as identical as possible in size (approximately 495 square meters) and locates them in the suburbs (Tsukiizumi, 2000, p.25). The name Uniqlo is supposed to suggest a “unique clothing warehouse”. Uniqlo is a shop similar to a warehouse. This style prevents waste. Uniqlo uses a “help-yourself” system, modeled after supermarkets. The cost of starting a new shop ranges from 60,000,000 to 70,000,000 yen (Chikae, 2000, p.110). FR practices labor-savings operations and low-cost construction.

(2) Establishment of Uniqlo⁽⁹⁾

FR originated with Ogori Syoji, a men’s clothing store. This company was started in Ube City in Yamaguchi prefecture in 1949 by Hitoshi Yanai, the father of Tadashi Yanai, who is the CEO of FR. Ogori Syoji was managed by

Hitoshi Yanai. The main source of sales was high-quality formal wear for gentlemen (Okamoto, 2000, p.87). This company bought commodities from Gifu and Nagoya, cities involved in the textile industry. Tadashi Yanai, the current CEO of FR, joined the company in 1972. He graduated from Waseda University in 1971 and then worked for JASCO, a large Japanese chain store. Ogori Syoji sold formal wear for gentlemen, foreign brands of high-quality women’s dresses, and famous brands of Japanese casual wear; e.g., VAN. In 1984, when Yanai Tadashi was the managing director of Ogori Syoji, he founded Uniqlo. The first shop opened in Hiroshima, near Ube city. The bubble economy began around 1985. At this time, expensive designer and “character-brand” fashions were popular in Japan. Under these circumstances, Uniqlo began business using the concept of selling casual wear at low prices. The concept expressed as a following; “in the shop, you can buy the clothes like a magazine”. The shop targeted teenage boys. At this time, the Uniqlo concept was not yet fully developed. The shop inventory did not contain the Uniqlo brand. Low prices, however, were featured.⁽¹⁰⁾ The “help-yourself” system was adopted. This system was initiated by Yanai, who believed that, while a high-quality shop must serve on its customers, customers of casual wear could help themselves. In 1984, Tadashi Yanai became chairman of Ogori Syoji.

In June 1985, Uniqlo opened in a suburb of Shimonoseki. In October, two similar Uniqlo shops opened in Okayama. The shops were built to look like warehouses to save on construction costs. This style resulted in savings in overhead costs. Most of the Uniqlo inventory was imported. In 1985, Japan experienced a drastic rise in the exchange rate of the yen. Nevertheless, the cost of commodities that FR bought did not drop. Therefore, to achieve low prices at the point of sale, FR needed to reduce its overhead costs. In 1988, franchisees were recruited to reduce the costs by buying in large quantities.

On the other hand, opening of new stores made it difficult to steadily find sources for goods of good quality and low prices.

In 1987, Yanai went on a tour of Hong Kong to visit a company named Jelldarno, which had a brand name of the same name. The brand was sold in the United States and Europe. The company had a form of SPA. The brand had a reputation for good quality and low prices. Yanai decided to commission the factory that manufactured the Jelldarno products to produce items under the Uniqlo brand. This was the first step toward the development of an SPA that controls planning, production, distribution, and sales. This system was modeled after GAP.⁽¹¹⁾ In 1988, a point-of-sale (POS) system was introduced. A POS system uses computers to instantly track inventories in the shops and to make that information available in the corporate office. The introduction of this system enabled management from planning to sales. In the same year, FR started the full-scale development of the Uniqlo brand (Okamoto, 2000, p.111). In February 1989, FR established its Osaka office to make enrich the development of their products. This office involved suppliers in the development of the specialty products. In 1989, FR also built a distribution center. In 1990, the computer system was renewed to process the information of commodities and sales inside the company. In 1991, the company name was changed from Ogori Syoji to Fast Retailing. The total sales amounted to 7,179,000,000 yen, and there were 29 shops.

In 1992, the Ogori Syoji shops, specializing in formal wear, were changed to Uniqlo, and all FR shops became Uniqlo. A new computer system was introduced to expand the business and to implement the management strategy. In 1994, the number of FR shops exceeded 100. In July 1994, the FR stock was listed on the Hiroshima stock exchange. To list released FR from finance problems like bank loans. FR moved quickly to open more Uniqlo shops. In

1996, there were more than 200 shops, and in 1997, there were 300. Then, the stock of FR was listed on the second section of Tokyo stock exchange. In the meantime, in order to reinforce the Uniqlo brand, FR established a design subsidiary in New York in December 1994. This subsidiary was 100% owned by FR and aimed to reinforce the function of design and information collection. To strengthen production, FR established a production subsidiary in Santon, China, in 1996. This subsidiary was a joint venture of five companies, including Nichimen, a general trading company, and other Chinese companies. The ratio of investment by FR was 28.7%.⁽¹²⁾

In 1997, FR started Spoqlo, a casual sportswear shop and Famqlo, a children and ladies shop, as new businesses and built nine of each type of shop. However, these businesses were not very successful. Under these conditions, the total sales of existing Uniqlo shops fell from the level of the previous year. As a result, an increase in revenue and profit from all of the shops was achieved by the sales gained by building new shops. In 1997, Takashi Sawada, the former COO of FR, left the Itochu Syoji company (Sogo Syosya) and joined the management of FR. Sawada made four proposals to improve the sales results of FR in response to Yanai's requests. He first proposed to close the Spoqlo and Famqlo shops. The problem was that entering to the new business made a vector of employees disperse. In 1998, FR closed the Spoqlo and Famqlo shops. His second proposal was to review the Uniqlo business. The third was to simplify the business. Until 1997, in the Uniqlo shop, other brands were sold. To attract customers, the brands were sold at low prices.⁽¹⁵⁾ Uniqlo's marketing objectives were not clear to its own staff and customers. Therefore, FR clarified its objectives. Uniqlo began selling its own brand of casual wear. His fourth proposal was to close the design office in New York. The Osaka, New York, and Tokyo offices established separate design facilities

until 1997, but the overall effort lacked uniformity. In 1998, these offices were integrated, and a new office was established in Tokyo.

In 1998, a new FR board of directors was appointed. The FR management was young and under the leadership of Yanai and Sawada. The improvement that we mentioned above takes over as 'all better change(ABC)' activity at the moment.

(3) ABC activity⁽¹⁶⁾

Yanai defined the essence of the ABC activity that started in June 1998 as follows (Hanbai Kakushin, Jan. 2000, p.36):

“So far, the head office was a thinking person, and, the shop was a practicing person. We change this style to the new style that thinks and practices at all work places including the shop. Also, we change the operation style how sell out the products into the style corresponded to the customer needs, that is, how produce the marketable products. ABC activity is literally the activity that change everything.”

The first part shows to change the shop operation that the head office had the initiative into the shop operation that shop managers have the autonomy. Management manuals were used in the Uniqlo shops to standardize the operational procedures in Japan. In the shop, to practice the manual was good management. On the other hand, the dependence on the manual took away the thinking ability of the shop manager, or, did not use the idea the shop manager thought. Gradually, the negative effects of the manuals compounded the problems for FR. To change the situation, FR modified its organization and personnel policies. At this point, FR shop managers were not

responsible for sales. They were assessed on the basis of cleanliness, inventory management, and personnel management. From July 1998, sales were added to the list of responsibilities. In February 1999, a super-star manager system was introduced. The super-star manager is a full-time FR staff member whose annual income was dependent on the performance of his shop. The system changed the management by linking performance to compensation. In 2001, there were 30 super-stars among the 520 shop managers (Syukan Toyo Keizai, Nov. 3, 2001, p.34). Furthermore, a supervisory position was created and advertised. The supervisors were in charge of several shops in a defined area and acted as sales coaches. The supervisor positions were established to locate problem areas in shops and to solve problems in cooperation with the staff at the corporate office and the shop.

On the later part of the statement about ABC activity, Yanai mentioned the change from how to sell out the product to how to produce the marketable product. This change is a problems of restructuring supply chain system(SCS). The FR design offices were integrated in Tokyo, which enhanced the unity of the Uniqlo brand. FR narrowed the items from 200 to 300. Instead of increasing the number of items, FR made a large volume of one item in order to reduce costs.

FR introduced a system with a weekly demand forecast and sales strategy and modified the production plan to conform to the sales plan in October 1998. In 1998, 90% of FR products came from the factories commissioned to produce in China. FR reduced the number of factories to 40 from 140 (Tsukiizumi, 2000, p.24). FR commissioned 85 factories (60 companies) to produce clothes for them in 2001. The most of Japanese SPA companies enter the commission production contract with Chinese factories via Sogo Syosya. The SPA companies put the production management and quality control into Sogo

Syosya's hands. Opposing this position, FR established a Shanghai office in April 1999 and a Guang Zhou office in September of that year. There are 90 local staff members in the Chinese offices, who visit the factories 3 days a week from Tuesday through Thursday and are directly engaged in quality control. Also, since 2001, FR has organized a team of skillful persons called Takumi. The team members are veteran Japanese engineers. They are a group of people that have worked in Japanese textile companies for a long time and have experience as factory managers. The following people work on the Takumi team (Chikae, 2000, p.18):

Hidetoshi Murakami, 53 years old, a sewing specialist with 30 years of experience.

Michio Ohta, 65 years old, a dye expert with 45 years of experience.

This team consists of 14 people. During one month, one person visits 10 Chinese factories to transfer the technology of factory management and sewing skills. Furthermore, in May 2001, FR built an on-line system between these commissioned factories in China and the corporate office in Japan. The production data of the factories is transmitted on-line to the corporate office. In addition, it is possible to deliver orders instantly to the factories on the basis of sales data. FR established a production system that, at the beginning of season, produces 50% of its production plan and then produces the remaining products according to the volume of sales at the shops. FR shares the production information with several material companies in charge of the production of cotton, yarn, textiles, and dyeing. FR links the production with the sourcing of materials.

To control distribution, FR staff members check the products delivered to

the Syosya warehouse in China. FR owns delivery centers in Tokyo and Osaka. A delivery center sorts the primary products by size and color. The products are delivered to the shops three times a week. The delivery takes charge of external companies.

In November 1998, FR opened a new shop in Harajuku, Tokyo. FR changed its advertising strategy from the use of leaflets delivered house-to-house to a multi-media approach making use of newspapers, magazines, and television.⁽¹⁷⁾ As a result, the Harajuku shop was successful, and the Uniqlo brand was enhanced. Simultaneously, a potential for developing shops in locations other than suburbs was demonstrated. And FR was listed on the first section of Tokyo stock exchange in November 1999. With the new computer system introduced in October 2000, it was possible to control the inventory by color and size with sales demand, which is defined as the sales information management by the minimum number of units. By introducing this system, to practice the coordination for production in smaller unit than present unit is considered. In 1999, several shops were able to make direct orders from the factories instead of relying on the corporate office. By 2001, 100 of 520 shops were able to order directly by item, color, and size. This system will be introduced in all shops in 2002.

(4) New subjects⁽¹⁷⁾

ABC activity continues today. The meeting for ABC activity is held by management staff members, such as section chiefs and higher, each Monday morning (a total of about 70 people). At these meetings, any company problem could be discussed. These meetings and the sales meetings held on Monday afternoons were important for making decisions about the ordinary operations of FR. The sales meetings were used to discuss sales among sales personnel,

supervisors, and shop managers. The results of the ABC activity had a large influence on the establishment of the business process of FR. The business process is shown in Fig. 4.

Insert Figure 4 (Business process of FR) around here

FR is involved in too many projects. FR continues to make progress after establishing a business process. In 1999, FR started a mail-order business with the use of a brochure. In January 2000, FR cooperated with Simree in a mail-order business. Simree is a company with experience in mail order. In October, a mail-order system through Internet was started. Furthermore, the existing some shops in the suburbs were closed, and FR is building new up-scale shops.

In June 2000, Fast Retailing (U.K.), Ltd., was established as a preparatory step for developing Uniqlo in foreign countries. In September 2001, four Uniqlo shops opened. The locations were Knightsbridge, Wimbledon, Uxbridge, and Romford. The conditions for locating the shops were different from those used in Japan. Knightsbridge is a downtown shop. The Wimbledon shop is located on a high street of this town. The Uxbridge and Romford shops are in suburban shopping malls with big parking areas. Legal differences between Japan and the U.K. prevented the use of suburban roadside locations in the U.K. Because building sites are limited, FR's success at locating shops will be an important issue. The Uniqlo inventories originate in China. The U.K. has quotas for imports from China. Therefore, as the number of shops increases, retaining its source of products is a problem. Genichi Tamatsuka, manager of the U.K. operations, stresses the importance of the partnership forming the

production contracts. FR looks for the partner that can build a cooperative relationship in order to realize the product quality that FR wants. And if such a partner possesses the factory in the country that U.K. does not charge the quota, FR has to solve the problem of the supplier for U.K. market. FR has been asked to establish a supply mechanism that emphasizes satisfying customer demand in the U.K. Also, to enter the Chinese casual wear market, Fast Retailing (Jiangsu) Apparel Co. Ltd set up in China in August 2001. Whether or not FR is successful in foreign markets will determine its future success.

5. Analysis

Our discussion point is to consider the meaning that the company start to the international business without the advantages. FR is analyzed from two viewpoints. First, we explain the relationship with the international business of FR, which includes a look at whether or not FR is a "born-global" company. We then analyze the locational advantages that FR has in China. Furthermore, we consider why other SPAs cannot imitate the FR model. After these discussion, we analyze the meaning that the companies without the advantages engages in the international business.

(1) Is FR a "born-global" company?

We borrow the concept of Oviatt and McDougall's (1994) definition of a "born-global" company. They asserted that it was essential for a "born-global" company to have an international origin. In other words, a "born-global" company must commit resources in more than one country. Therefore, their description follows (Oviatt and McDougall, 1994, p.49):

“They do not necessarily own foreign assets; in other words, foreign direct investment is not a requirement. Strategic alliance may be arranged for the use of foreign resources such as manufacturing capacity or marketing.”

We have to judge whether Fast Retailing(FR) is born-global or not. The judging criterion is whether the company uses the foreign resources from the inception or not.

In the case of FR, the origin was in 1949. It is Ogori Syoji, which was started by the father of the CEO of FR. Ogori Syoji began to sell men’s formal wear. Later, the company expanded and sold dresses and casual wear to women. In this context, Tadashi Yanai joined the company in 1972. When he was the managing director in June 1984, he started Uniqlo, a casual wear shop. After Uniqlo was established, Yanai became the chairman of Ogori Shoji in September 1984. He decided to operate Uniqlo as a business of Ogori Syoji. Hence, 1984 can be regarded as the founding year for FR’s Uniqlo.

Uniqlo was, at first, a clothing store that concentrated on casual wear for teenage boys and competed with low prices. The competitive strategy was supported through sourcing of low-priced commodities. FR inventories came from foreign countries including Hong Kong. When the prices for the commodities from the foreign countries did not fall, warehouse-style shops were conceived. From Uniqlo’s beginning, the business relationship with the foreign companies was an important factor in their competition in order to be able to obtain cheaper commodities than their Japanese counterparts. In other words, for FR to grow, it had to use foreign sources to keep prices low. In 1984, the only aspect of the business that FR controlled was sales. However, in the business process, the business relationship to use foreign resources existed

(see Figure 5).

Insert Figure 5 (The business process of FR in 1984) around here

In summary, FR used foreign resources from its beginning. To determine whether or not this company is a “born-global” company, we need to determine whether the company used foreign resources from its inception. FR did; therefore, we can conclude that FR was a “born-global” company.

(2) Locational advantages and organizational capability

FR adopted an SPA form. We showed that, for an SPA company, the capability to organize a supply chain system (SCS) is an important advantage. Because SCS is the system that realizes the ideal assortment of commodities. In order to realize the assortment, some activities of SCS has to locate several countries. The reason of this location is to integrate the locational advantages existing in each country into SCS. In other words, the locational advantages add value to each commodity. And the organizational capability enhances the value of the shop for the customers so as to realize the assortment that the company intends. To sum up, the purpose of the internationalization of SPA is to form the attractive assortment through combining the locational advantages with the organizational capability.

In the case of FR, when Uniqlo was established in 1984, FR’s control was limited to the sales function. The only way to transform locational advantages of foreign countries into advantages for FR itself was to source the products produced by foreign manufacturers by means of transactions on the international market. Although a strategy of FR was to target teenage boys in

the casual wear market, the company was limited in its ability to obtain the commodities that the customers wanted. The edition of the assortment, and the sourcing activity are related each other. For the reason that the capability of sourcing the commodities is limited, the assortment is edited from the commodities that were possible to practically source. The problem that cannot realize the edition of assortment as the strategy becomes a driving force to establish the system in order to realize the sourcing of commodities.

In 1987, FR started the commission production in Chain, and the number of factories making a contact for the commission production increased. In 1988, FR started to strengthen its product planning and design. A design office was established in Osaka in 1989. In 1988, FR introduced a computer system to control sales in individual shops. As a result, FR was able to control product planning, a part of production, and sales (see Figure 6).

Insert Figure 6 (The FR business process as commission production began) around here

At the time that FR only sourced foreign brands via the market transaction, the locational advantages were embodied into the commodities they bought. But, by starting the commission production with their partners, the locational advantages become factors that decide the attraction of their commodities. Most of the factories that FR uses for the production of its products are Chinese. The following factors are advantages of using factories in China (Syukan Toyo Keizai, Nov. 3, 2001, p.44). First, labor is cheap. The wages in China are one thirtieth of those in Japan. To the 700,000,000 people that make up the working population, the people engaging in agriculture and the marine

products industry are moving to urban areas to become factory workers, and they return to agricultural districts within 3 years. That is, the labor cost does not increase because of the use of non-skilled workers. Second, China's primary industry is the textile industry. In Shanghai, it is easy to source the materials needed for producing clothes, such as buttons, zippers, and fabrics. The prices of the materials are very low. To integrate the advantages of using the facilities in China into the SCS, it is important to reinforce the cooperation between FR and the Chinese factories. In other words, reinforcing the relationship with the foreign factories leads to strengthening the organizational capability of an SCS.

After starting the commission production, the edition of assortment that FR has aimed rose the possibility of realizing by the subjective intention of FR without the influence of the market situation. However, the parts that FR could control were very little of their whole business. Most of the commodities came from foreign sources. However, if each activity of FR's business process does not make reinforce, the meaning for FR to control all business process will be small. The design subsidiary established in New York in 1994 aimed to reinforce product planning. With the design subsidiary, we assume that FR was trying to integrate the advantages of location into its business process (see Figure 7).

Insert Figure 7 (Business process of FR after establishing a design subsidiary) around here

When the design offices were reorganized in 1998, the design subsidiary in New York was closed. The reason for reorganizing the design offices in Osaka

(established in 1989), New York, and Tokyo (established in 1996) was explained earlier. There was no unity in the Uniqlo brand with three offices operating independently. In the other words, the edition of assortment that FR draws dose not make clear as the strategy of FR. It was the influence of sourcing by the commodities that FR could practically source. It was the result of confusing the assortment that FR could practically source with the assortment that FR imaged as the strategy. In restructuring the Uniqlo business started from 1998, FR confirmed their assortment that FR should aim, and decided to basically assort the commodities on Uniqlo shop by only Uniqlo brand. Therefore, the business process of FR was simple (see Figure 8).

Insert Figure 8 (The business process of FR since 1998) around here

FR was a real SPA form through assorting the commodities of Uniqlo shop by Uniqlo brand. By becoming a real SPA form through using the SCS and realizing ideal assortment, FR has an advantage over other forms of commerce. In short, FR can ensure an assortment of goods that will satisfy its customers. On the other hand, FR has to cover for the cost of keeping the SCS. For FR, what SCS rusts out means the lost of competitiveness. Since 1998, FR has been using a system to predict customers' demand and accordingly modifying production plans on a weekly basis (see Figure 9). For FR to maintain these advantages, it has to continuously improve and invest on their SCS.

Insert Figure 9 (The reorganized supply chain of FR (conceptual figure)) around here

This is the reinforcement of organizational capability well functioned SCS. About each part of SCS, the improvement is practiced by a fulfillment of quality control system in Chinese factories, and, a promotion of technology transfer by Takumi team. Through these activities, FR's production activity makes good use of the locational advantages of China and enhances the value of SCS as the whole.

As mentioned above, according to the growth, FR expanded the activities that they can control. In order to realize an ideal assortment, FR needed the SCS for sourcing the commodities. SCS of FR enhanced the capability through making the commission contract with Chinese factories. To integrate the locational advantages of China into the organizational capability, FR have practiced a lot of efforts device like a fulfillment of quality control system.

(3) Meaning to internationalize without the advantages: the internationalization for building the advantages

What means dose the non-market born-global internationalize without the advantages? The answer is given in the above analysis.

At the time Uniqlo was founded in 1984, sourcing low-priced commodities by engaging in transactions with foreign companies gave FR a specific advantage. According to the growth, FR expanded the activity that FR can controlled in the SCS. At the same time, the capacity level of each activity in the SCS was enhanced. Finally, all activities in the SCS were placed under the control of FR. On this background, there was the reason that FR was forced to build the SCS in order to realize the ideal assortment. SCS has to build as a device that the company can source necessary commodities. In the

other words, through the sourcing process, SCS has to have a function to add the commodities to the factors that the company wants. To exist a part of activity of SCS in foreign country means that SCS is possible to add special factors to the commodities through integrating the locational advantages of the country that the activity is located. In the case of FR, the SCS of FR is able to offer low-price and high-quality commodities because the production was located in China. Possessing and operating such an SCS is an advantage of FR.

As understood in the case of FR, the internationalization of non market born-global is due to integrate the locational advantages into their own business process. Integrating the locational advantages into the business process gives a company the advantage to compete other companies. Building and gaining the advantage that comes from the business process itself is the reason that non-market born-global engages in the international business.

6. Conclusion

We discussed to the reasons that the non-market born-global internationalizes without possessing advantages. We picked up Fast Retailing(FR) as the non-market type born-global. The meaning of international development of FR integrates the locational advantages through the production in China into their own SCS, enhances the potential of the SCS, sophisticates the capability to organize the SCS, and enhances the value of the SCS as the advantage. To sum up, FR enhances competitiveness by making the organizational capability of the SCS more sophisticated. The same applies to other non-market-type "born-global" companies.

On the research of internationalization of firm, the importance that disposes appropriate activity at appropriate place is asserted. To dispose appropriate activity at appropriate place means to locate each activity that forms the business process of the company at the place that is the most available to the locational advantages. We have thought as one investment style that a multinational enterprise has made the investment from sales to R&D in one country. This thought is related with the problem of the localization. This discussion is a mainstream in the study of the internationalization of firms. However, the company will fill to be an attractive thought that enhances the organizational capability as an advantage through integrating the locational advantages. In this area, more research is needed. We will tackle as the future subject of whether new foreign direct investment and re-structuring existing foreign subsidiaries by the existing multinational enterprises practices on the base of our idea or not.

Notes

- (1) The approach that participation in international business gradually expands is pointed out in the international process of many country's firms. Concerning the phased internationalization of a firm, a Swedish firm was studied by Johanson and Vahlne (1977). An American firm was studied by Robinson (1976, 1984), Heenan and Permuter (1979), and Ansoff (1984). In addition, a Japanese firm was studied by Kobayashi (1980) and Omae (1987).
- (2) For example, Oviatt and McDougall (1994, p.46) studied the cases of LASA Industries, Inc. and IXI Limited.
- (3) Andersson and Wictor (2001) show that the concept of "born-global" companies was suggested by the research of Mckinsay and company. Also, they point out that the research on the internalization of small and

medium-size firms (for example, that by Buckley, Newbould, and Thuewell (1979)) is prior to the research on “born-global” companies.

- (4) Dunning (1988, p.42) classified ownership advantages into asset advantages and transaction advantages.
- (5) We can show the following as the research on the operational aspect of SCS: Bhoté (1989), Carlise and Parker (1989), Christopher (1992), Christopher (1997), Gattorna and Walters (1996), Harrison (1993), Hines (1994), Houliham (1988), Kay (1993), Lamming (1993), Lewis (1990), Sako (1992), and Saunders (1994).
- (6) In the marketing theory, SCS can be defined as the sourcing behavior (Yoshida, 2001).
- (7) The president of GAP is the person used a term as SPA at first.
- (8) The description of this section is based on *the Corporate Brochure for Introduction* (2001 version), *Dai-40ki Kessan Setsumei Shiryō* (The Material for the Explanation of 40 Terms Settlement). Other materials used are shown in the text.
- (9) The description of this section is based on *Dai-40ki Kessan Setsumei Shiryō* (The Material for the Explanation of 40 Terms Settlement), Ogawa et al. (2000), and Chikae (2000). Other materials used are shown in the text.
- (10) Another positive aspect was the long hours of operation that the store had (from 6.A.M. to mid night)
- (11) Moroe (2000) and others show that FR have benchmarked the GAP as the model for growth.
- (12) SPA is considered the company practice from product planning and production to sales. But the company that actually possesses the factories and invests to the Chinese subsidiary is very rare (Nikkei MJ, 2001). Syosya enters a commission production contract with Chinese factories, and

retailing companies enter a sales contract with Syosya. As to FR, 60% of its transactions are via Syosya (Hanbai Kakushin, 2000). In this meaning, the foreign direct investment of FR is a special case.

- (13) the brands like Champion, Rebock, Bad boy, Vision, and Elvis Presley were sold in Uniqlo.
- (14) The description of this section is based on *Dai-40ki Kessan Setsumei Shiryō* (The Material for the Explanation of 40 Terms Settlement), Chikae (2000), Nikkei MJ (2001), *Syukan Toyo Keizai* (15 July 2000; 3 November 2001), and *Hanbaikakushin* (June, 2000). Other materials used are shown in the text.
- (15) In Japan, newspapers are generally delivered every day. Newspapers include many kinds of advertisements. FR used this type advertisements as an important medium.
- (16) The description of this section is based on *Dai-40ki Kessan Setsumei Shiryō* (The Material for the Explanation of 40 Terms Settlement) and *Syukan Toyo Keizai* (3 November 2001). The description about Uniqlo shop in U.K. is based on the interview with Genichi Tamatsuka (at that time, Chairman, Fast Retailing (U.K.) Ltd.). Other materials used are shown in the text.

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