

Advantages, Problems and Strategies of Uniqlo Supply Chain

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Abstract: In this paper, Uniqlo, a well-known Japanese clothing brand, is selected as the object of case study to explore the core advantages and existing problems of the supply chain and put forward optimization suggestions. We find that SPA, ECR and suppliers complement each other in good cooperation. Based on giving full play to their advantages, a resultant force is formed and continuously radiates, which enables Uniqlo to avoid the “bullwhip effect”, improve the operation efficiency of the enterprise, and maximize profits. Among them, SPA plays an absolute advantage. However, good supply chain capability has enabled Uniqlo to win the market among similar clothing brands, but there are also limitations. One is to bear the exogenous and endogenous risks of supply chain management alone. The other is the high investment cost of direct stores, such as the high Managing overheads, which leads to the high operating cost and slow expansion. Therefore, this paper puts forward some suggestions on optimizing supplier selection and transforming and upgrading marketing mode.

Keywords: Uniqlo; Supply Chain; SPA Mode; Optimization Strategy; Network Marketing

1. Introduction

Uniqlo, fully known as Unique Clothing Warehouse, the Japanese casual clothing brand that took the world by storm. By the end of 2023, Uniqlo has opened more than 3,500 stores worldwide and more than 900 stores in China, becoming a leader in the apparel industry. In particular, affected by the epidemic since 2020, the global economy has declined, and Uniqlo has continued to expand its stores, which shows its strength and popularity. However, analyzing the competitive clothing market, Uniqlo faces two outstanding external competition dilemmas.

The first is to grasp the consumption trend and market dynamics brought by the individuation, diversification and uncertainty of customer demand; the second is the homogenization competition of the the top four fast fashion brands. So the convergence and differentiation of the supply chain mode is particularly important. On the one hand, Zara and H&M create myths with Agile Supply Chains and Double Supply Chains, respectively. Zara’s Agile Supply Chains is recognized by the industry and scholars as a fast selling and relatively successful supply chain. H&M’s Double Supply Chains is composed of fast-reaction supply chains that control European production and efficient supply chains that manage Asian production [1]. On the other hand, Gap and Uniqlo adopt the same mode, that is, SPA (Speciality Retailer of Private label Apparel) supply chains. The SPA, first adopted by Gap Group, speeded up the “design- printing-ordering-mass production-distribution-retailing” process to 90 days, making Gap a representative of the world’s fast-selling clothing brands. However, this speed can no longer meet the needs of the digital market, which is why GAP is gradually withdrawing from the competitive market. This can be imagined for the survival of Uniqlo. How to adapt to the consumption trend, implement the adjustment of operation strategy, find their own foothold in the increasingly cruel homogenization competition, and constantly optimize their own supply chain model has become an imminent task for Uniqlo. This paper selects Uniqlo, a well-known Japanese clothing brand, as a case study object, in order to analyze its supply chain, explore the core advantages and existing problems of the supply chain through the matching situation between the supply chain and the company’s operation strategy. The paper will also provide some valuable reference suggestions for the long-term development of Uniqlo.

2. Advantages of Uniqlo's Supply Chain System

Throughout Uniqlo's supply chain system, SPA plays an absolute advantage (e.g., **Figure 1**). Uniqlo's SPA model has the notable advantage that lower operating costs profits. It guarantees the quality of the product at the lowest possible cost. At the same time, it uses customer demand and market feedback to adjust its operational strategy, so as to avoid the adverse effects of unstable factors [2].

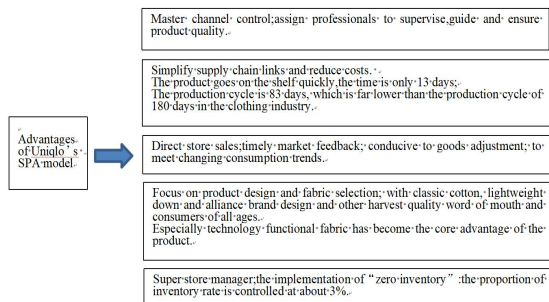


Figure 1: Advantages of Uniqlo's SPA Model

However, more importantly, the good cooperation between SP, ECR (Efficient Customer Responses, Customer demand-driven model) and suppliers complement each other. On the basis of their respective advantages, they form a joint force and constantly radiate, which ensures the efficient operation of the whole supply chain system.

2.1 Reducing the Influence of "Bullwhip Effect"

The "bullwhip effect" refers to the phenomenon that the change of consumption demand downstream of small supply chain leads to violent fluctuation, which affects the production and management of enterprises upstream of supply chain. Uniqlo's SPA model strengthens the upstream and downstream integration of supply chain, thus reducing the volatility of the whole supply chain. One is to implement the whole supply chain management [3]. With almost complete control of all the processes of design, procurement, production, distribution and terminal sales, the factors that produce bullwhip effect such as demand forecast update, limited supply and other are greatly eliminated. Thus, the "bullwhip effect" is eliminated from the root of supply chain. The second is direct sales. With the collection of customer feedback, at the same time through the super store manager's real-time tracking, Uniqlo uses the product

life cycle of 18 week and timely reports to the Japanese headquarters, in order to realize information sharing, adjust product design and marketing strategy, achieve "zero inventory". In result, the product unsalable inventory pressure and capital pressure are reduced. This strategy of timely adjustment based on feedback from the downstream of the supply chain minimizes the impact on the upstream of the supply chain.

2.2 Ensuring the Efficiency of Supply Chain Operation

SPA model makes Uniqlo set design, purchase, production, sales in one. It greatly shortens the supply chain process. At the same time, it integrates the upstream resources of the supply chain and ensures that suppliers, Uniqlo and customers form a short supply time, timely customer information feedback, low operating cost value chain [4]. The core of the ECR model is to establish a customer-oriented retail model. Through data research, the ECR model determines the target population for business or category customization combination, as well as the implementation of the corresponding market support strategy. It uses information technology and logistics technology for standardized supply chain management, so as to maximize customer needs and reduce inventory. Uniqlo uses ECR to minimize the risk of demand forecasting, and uses technology to less likely avoid uncertain consumption trends and market changes outside the supply chain. As the result, Uniqlo establishes a good cooperation with suppliers, further strengthens the solidity between the link points within the supply chain, and improves the operational efficiency. The overall chain structure of the SPA model, coupled with the enhancer of good relationship between ECR and suppliers, makes the Uniqlo supply chain system operate efficiently.

2.3 The Matching Between Supply Chain and Operational Strategy

The Matching between Uniqlo's SPA model and operation strategy is characterized by deep control of supply chain, reasonable cost and controllable quality. Firstly, the low SKU (Stock Keeping Unit) strategy enables it to work with many top suppliers for a long time to control the supply chain from the fabric end and garment end. Uniqlo's focus on basic

clothing allows the company to maintain relatively low SKU. As a general rule, it is 500, compared ZARA 20,000 a year, a figure that has a great advantage [5]. This strategy greatly reduces the marginal cost of production per product and improves product quality. At the same time, Uniqlo has remained around 70 suppliers compared to hundreds or thousands of its competitors. Therefore, it can consolidate its partnership by giving each supplier a larger order. Secondly, the ability to control the supply chain enables Uniqlo to reduce raw material costs and ensure its product quality. On the one hand, Uniqlo has more freedom than other brands in customizing fabrics, and can also purchase high-quality raw materials at a low price; on the other hand, it can join hands with many large suppliers in fabric development. At the same time, it sends professional and technical personnel to guide. Thirdly, Low production cost. Because the products are mostly basic, standard, and usually start a year before the product goes on sale, and the overall process can last for a year, leaving the links for months. In this way, in the longer delivery period, fabric factories, garment factories are much free to arrange orders, they can make full use of capacity and reduce manufacturing costs. Fourthly, Uniqlo's direct store sales, super store manager and ERC model make the terminal information feedback quickly, the sales plan is adjusted in time. As the result, the optimization of inventory management is realized, and the "zero inventory" is greatly guaranteed.

3. Problems of Uniqlo's Supply Chain and Operation Management

3.1 Taking the Risk Alone

By minimizing the elimination of middlemen, Uniqlo takes risks alone increasingly. There are only suppliers sharing the risks on the upstream side of its supply chain. First, exposure to exogenous risk, that is, to independently bear the risk of external environment, consumer personality needs and other unstable factors. This risk value can be large or small, either not implicated, or heavy losses. Second, facing endogenous risk, that is, to bear the risk of relying on a specific region for production, overseas operating risk, foreign exchange risk and other supply chain management risks. Such as Uniqlo's 90% of

the products are produced or imported from Asian countries. China is its first production processing zone. For example, in the beginning of 2020, the global outbreak of the epidemic, Uniqlo in China all processing plants have temporarily stopped operations. In addition, according to one statistic, Uniqlo had more than 700 stores in China at the end of 2019, and announced the temporary closure of 270 stores in China at the beginning of 2020 [6]. Third, from the product design, fabric procurement, product production, and sales, each link has a risk point. A little fault may lead to the imbalance of supply chain, increased costs, and less profits.

3.2 The investment costs of Direct Store are high, While its Expansion is Slow

Unlike the operating strategy of minimizing product costs, Uniqlo stores have very high input costs. First, the store rental is high. Uniqlo usually runs direct stores in central urban areas and is adjacent to luxury stores. The store area is generally 1000 m². As we can see, this is a considerable Managing overheads. Second, the store decoration is frequent. More and more frequent investments have been made in store renovations. In order to make consumers more willing to go to physical stores to experience the pleasure of shopping, Uniqlo pays great attention to the decoration of stores. It often renovated to adjust the layout and furnishings of stores. Third, because the branches are also direct stores, all expansion costs can only be properly Uniqlo itself. For the expansion of the franchise model, Uniqlo store's expansion of the capital investment is quite amazing [7].

4. Some Thoughts on Uniqlo's Supply Chain and Operation Management

4.1 How to Avoid Supply Chain Risk

The core is whether we can strengthen the understanding and prevention of the risks in the operation of the supply chain. It is the key issue related to whether Uniqlo can achieve the expected benefits. It can be seen from Uniqlo's supply chain system that the selection of suppliers can be further optimized. In China, for example, Uniqlo works with more than 200 suppliers. It is understood that Uniqlo's suppliers are mainly distributed in Bangladesh, Cambodia, China, Indonesia, Japan, Thailand

and Vietnam. The number of suppliers in China is far greater than the sum of the other six countries, accounting for 60% [8]. From the perspective of supply chain risk, this numerical risk degree is obviously too high. The outbreak in China described above is a good example. Of course, it is undeniable that Uniqlo's low-cost control strategy must work together around the world to find the best suppliers. The processing capacity and cost of the Chinese market are indeed the best choice. However, in terms of supply chain risk, the question of whether 90% of the low cost can offset 90% of the high risk is indeed worth pondering. In the digital era, cross-border e-commerce and network broadcast have become emerging marketing models. Uniqlo needs to transform and upgrade its marketing model based on the combination of physical operation and network operation. In addition, compared with the production and processing capacity of China and other countries, in fact, with the improvement of China's national strength in recent years and the rapid development of the economy, the cost of Indonesia, Vietnam, Thailand and other country has been lower than that of China. Therefore, for Uniqlo, appropriately increasing the number of suppliers in other regions, strengthening cooperation, and formulating excellent risk prevention agreements can better optimize the supply chain. It can also better reduce the risk of relying on a country and operating overseas.

4.2 How to Transform and Upgrade Marketing Model

One is to increase online shop marketing. Today, digitalization has become a trend leading global change. Many physical stores have exited the market in the general trend of online marketing. ZARA, one of the "four Kings" of the clothing industry, has officially gone into bankruptcy and liquidation in China [9]. Therefore, Uniqlo must transform its marketing model and make great efforts in network marketing to meet the needs of the new era. The second is to upgrade the direct store model. How to reduce the cost of direct stores. The immediate answer is to reduce the share of rent. So, it is necessary for Uniqlo to optimize the location of its stores. The current development situation of Uniqlo was analyzed through SWTO, and the site selection of ZARA, GAP and H&M in population, real

estate, consumption, transportation, business and other aspects were analyzed. For example, the location of H&M's physical store is closer to the scene of life community, and the group is not only the resident population, but also the mobile population [10]. Therefore, if it is for these people, perhaps low-price and high-quality Uniqlo is more favored.

5. Conclusions

Research and analysis of supply chain capability is an important means to optimize enterprise operation and management. This paper selects the famous Japanese clothing brand Uniqlo as the case study object, explores the core advantages and existing problems of the supply chain, and puts forward optimization suggestions. Throughout the development of the garment industry in the future, the supply chain model oriented by network marketing and customer demand is still dominant. Only by continuously optimizing the supply chain model, adjusting the operation strategy and realizing the mutual matching of the two, can Uniqlo have a strong competitive advantage in the fierce clothing market. In the long run, there are still many shortcomings in this study. Perhaps assessing the gap between Uniqlo's internal supply chain capacity and best practice, analyzing competitors' supply chains, investigating supply chain technology, managing global supply chain risk and other aspects are still the research directions we need to focus on in the future.

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