

The Uniqlo Case: Fast Retailing Recipe for Attaining Market Leadership Position in Casual Clothing

Rohit Kumar

Indian Institute of Management Ranchi

Shubh Majumdarr

Indian Institute of Management Ranchi

Abstract

Uniqlo's ability to attain a market leadership position in casual clothing during the Covid-19 pandemic is a challenging endeavor. To understand the secret recipe of this success, a practitioner-oriented investigation involving examining relevant published articles in public domain and the company's history of seven decades was undertaken. The global value chain analysis of the fast fashion industry and competitive dynamics involving the two closest competitors was carried out. The managerial implications highlight the importance of importing ideas from beyond one's industry and home country boundary, value innovation, distancing from closest competitors, and implementing an open, differentiated and circular business model.

Introduction

Over the last century, the art of mastering the prevailing style of clothing and appearance at a given point in time has helped many firms across the world to build fast fashion brands. These brands allowed mainstream consumers to own the hot new look or the next big fashionable thing at an affordable price.¹ However, over the last century, only a handful of fashion brands have survived. Interestingly, during the current Covid-19 pandemic, only a few have thrived, and one of them is Uniqlo, a famous brand of Japan's Fast Retailing Group (FRG). The competition in the fast fashion industry has forced firms to be present in the online space and use social media platforms to engage with their customers actively, track consumer analytics on a real-

time basis, and use micro-influencers as brand ambassadors. Uniqlo has been among the more resilient fast-fashion retailers during these challenging times,² and intends to become the world's top fashion retailer by distancing itself from its closest rivals Zara (Spain) and H&M (Sweden).³ In fact, in early 2021, Uniqlo's market capitalization hit \$105 billion, dethroning Inditex's Zara and become the world's most valuable apparel retailer.⁴ So, what is Uniqlo's recipe for attaining the market leadership position during the Covid-19 pandemic? To answer this question, we first examine the global value chain of the fast fashion industry. We then analyze the firm's business model and competitive dynamics with the two closest competitors. Finally, we highlight key managerial insights and lessons.

Global Fast Fashion Industry

The global fast fashion industry is one of the biggest consumer goods markets with the shortest product lifecycles due to changing customer needs. The industry has been at the forefront of innovation and technology adoption, and according to the forecast; the industry is expected to generate revenue upwards of \$30 billion in 2021, a compound annual growth (CAGR) of 21.9% over 2020 despite the covid-19 pandemic, which disrupted the supply chain and shifted customer behaviors.⁵ The main reason for such high growth has been the emerging markets in Asia, Eastern Europe, and Latin Europe. The consumer spending increase in these developing nations has been much faster as compared to industrially developed countries and it is projected that by 2025 Asia will account for 37% of overall consumer spending as compared to 29% in 2010.⁶

Global Value Chain – Fast Fashion

Globalization has diluted boundaries across nations and has transformed the apparel industry by opening new avenues. To capture new markets and maintain a competitive advantage over competitors, the brands have scrambled resources for faster response time and higher product quality along with maintaining low cost.⁷ This has led to the shifting of low value-added activities to developing nations. These low economic value activities primarily include stitching and dyeing, which is labor-intensive and has adverse environmental and health impacts on the workforce. Whereas the high economic value-adding activities are concentrated in developed nations.⁸

This allows the retailing companies to hold a substantial profit due to significant value addition.⁹ Vertical Integration has also helped firms gain more control over the value chain and further reduce the distribution cost.

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Adopting practices like just-in-time and quick response have made the supply management system lean and responsive.

Japan's Fast Retailing Group

In the last 72 years, with changing business dynamics and consumer preferences, few 20th-century companies have survived the test of time. However, Ogori Shoji renamed Fast Retailing is exceptional and has even achieved greater height in the 21st century. It has turned into Japan's largest apparel company, and its subsidiaries include popular global brands such as Uniqlo, GU, and PLST.¹⁰ It has also expanded into foreign markets and has strategically acquired foreign brands such as J Brand, Theory, Princesse Tam Tam, and Comptoir des Cotonniers.¹¹ The holding company is mainly engaged in the control and management of its subsidiaries. In 2017, to transform itself into a digital consumer retail company, FRG launched the Ariake Project. It collaborated with Google Cloud's Advanced Solutions Lab and Accenture PLC to implement Artificial Intelligence and Big Data strategy.¹² It aims to create a competitive advantage by understating customer demand and behaviors to forecast future demand. This project also coincides with Fast Retailing's commitment to sustainability, minimizes environmental impacts, and helps uphold human rights and responsible procurement.¹³

About Uniqlo

Uniqlo traced its humble beginnings back to March 1949 when its parent company, founded by Hitoshi Yanai, opened its first men's clothing store, Ogori Shoji in Japan's Yamaguchi prefecture. Over the years, following a steady Japanese economic growth after World War II and a rise in consumer disposable income helped the Yanai family expand to 22 stores under the brand.¹⁴ In 1984, under founder's son Tadashi Yanai's leadership, the first unisex casual clothing store, Unique Clothing Warehouse, opened in Hiroshima. Its success led to opening the first large roadside outlet in Yamaguchi prefecture to cater to the bulk buying segment and customers arriving by car.¹⁵ With further expansion and growth opportunities on cards in domestic and foreign markets, the brand Uniqlo was born in Hong Kong due to a clerical mistake during registration; the contracted name – Uniclo was misread as Uniqlo. The new brand name was considered a “beautiful error” and was accepted by the leadership.¹⁶ In 1991, intending to transform the retail into a brisker business in Japan, the company renamed the parent company to Fast Retailing.¹⁷ It was subsequently listed in both the Hiroshima and Tokyo Stock Exchange in the next six years. During this period, the Japanese Banking Crisis was triggered, leading to stagnating household

consumption due to stagnating disposable income.^{18,19} The brand turned the economic downturn to its advantage by offering low-priced products with high quality. It launched its first store in Tokyo with its budget “¥1,900 fleece” jacket product line. The campaign turned out to be the most successful in the company's history. They offered 15 different color shades of fleece jackets in 1998 and gradually 51 at its peak in 2000. They undercut their competition by 50% and maintained a 25% profit margin due to their unique business model.²⁰

After dominating the Japanese casual clothing domestic market with 507 outlets nationwide, Uniqlo experienced saturation and a fall in sales in the Japanese market. Thus, it pursued aggressive international expansion to continue its growth and compete in the league of global brands like GAP, Zara, and H&M. In China, with the open-door policy of 1979, the support for foreign investment and business-friendly policies from the government led to the shifting of global production houses. Uniqlo, too had a limited presence in China due to its production houses as it viewed China as a production base and not a retail market. In late 2002, the company changed its strategy and launched two large retail stores in the heart of Shanghai. The response was phenomenal as the sales skyrocketed and the number of stores grew exponentially, with the demand to 822 stores in 2021, surpassing the Japanese store count. Further, during an interview with Nikkei, Tadashi Yanai said, “Given the population of 1.3 billion, I think we can go for about 3,000 stores.” Its first footprint was in the European markets via four stores in London in early 2001 to further 50 outlets all over the UK in the next three years.²¹

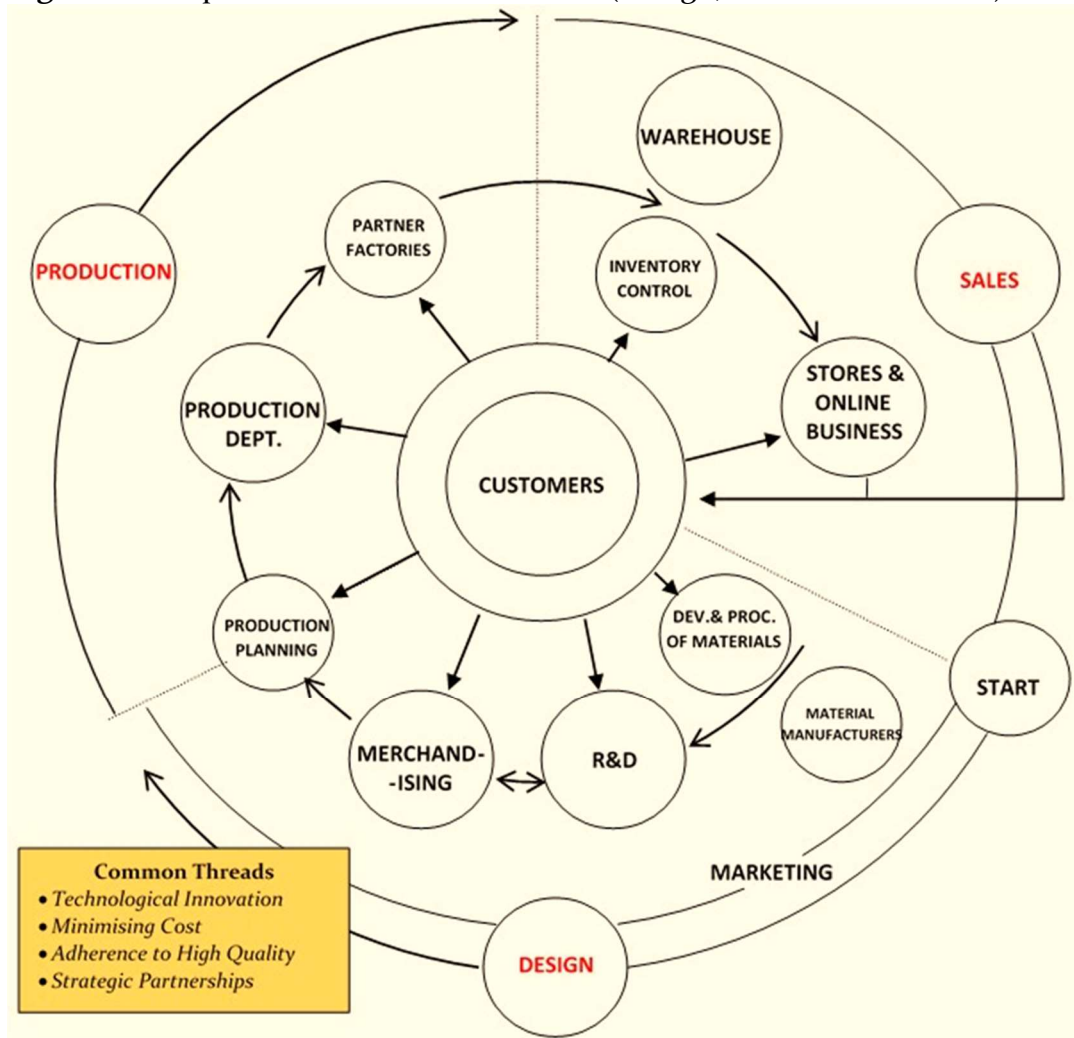
Constant innovation and investment in Uniqlo Design Studios in New York and staff training through Uniqlo University (located in Tokyo, Japan) provided many breakout moments in the company's history, which generated significant revenue and helped capture foreign markets as well. In collaboration with Toray Industries in 2004, Uniqlo designed and launched the HeatTech line of merchandise.²² The product was top-rated, and the demand outpaced the production in 2007. It became one of the best-selling Uniqlo products to date and has helped cement its market leadership position. In 2009, the collaboration again stormed the market with its all-weather ultra-light down product line jackets with 90% down and 10% feather ratio and just weighed 206 grams.²³ In 2019, Uniqlo stepped into one of the world's fastest markets of 1.3 billion Indians with a mega-store in the heart of India - New Delhi. In a preconference, Tadashi Yanai commented that “I have the same level of expectation for India's potential as a market as I have had for China, or even higher.”²⁴

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Uniqlo's Business Model

The brand with the tagline “made for all” operates 2309 Uniqlo stores around the globe, with a majority of 65% (rounded off) stores outside Japan, which shows its strong international presence. Unlike its competitors, Uniqlo's success can be attributed to its speciality-store-retailer of private-label apparel (SPA) business model and product versatility approach. Also, leveraging cutting-edge technology at each step, from its warehouses to retail stores, for better customer experience has helped the brand achieve economies of scale and understand customer's needs better. The entire business model is depicted in a circular format and divided into three major components, i.e., Design, Production and Sales. Uniqlo's circular business model is depicted in Figure 1.

Figure 1. Uniqlo's Circular Business Model (Design, Production & Sales)



Source: Adopted from Company's website.

The customer is at the center of the business model, emphasizing the management principle of the customer first approach. The common threads running across the three segments is that of *technological innovation* (e.g., use of fabric technology during the design stage for developing new fabric), *minimizing cost* (e.g., maintaining an optimum level of store inventory, not owning any factories and securing high-volume supplies of good quality fabrics at low cost by directly negotiating with fabric manufacturers worldwide and placing large-volume orders), laser-sharp *focus on high-quality standards* (e.g., deployment of skilled artisans in partner factories in Shanghai, Dhaka, Jakarta, Ho Chi Minh City, Istanbul, and Bengaluru), and, *forging strategic partnerships* throughout the design, production and sales processes.

Design: With production planned a year in advance (unlike Zara and H&M), Uniqlo's R&D centers in Japan, New York, and Paris approach product design on the 'see-now, buy-now' approach rather than following trends that have limited longevity and design.²⁵ They also develop new products according to customer requirements and complaints received via daily email named Voice of Customer.²⁶ Some famous developments that have redefined the apparel industry are AIRism, which uses comfort conditioning technology, and HeatTech (collaboration with Toray Industry), a new heat-retaining material. Also, limited edition collections in collaborations with famous designers like JW Anderson, Jil Sander, and Alexander Wang help bring fresh designs.²⁷ Uniqlo's material development team procures high-quality materials at low costs via negotiations. Merchandisers ensure a smooth transition from design to production stage as they are responsible for marketing strategic product launches and adjusting production volumes according to sales.

Production: As Uniqlo does not own any factories, it outsources all its production to partner factories concentrated in China and South Asian countries like Vietnam, Bangladesh, Indonesia, and India. It allows Uniqlo to keep low the breakeven point and improves a return on investment. To further improve operational efficiencies and maintain high-quality products, Uniqlo builds competition between primary and potential partner factories to build their competence rapidly. Thus to receive a higher volume of orders, the factories had to implement advanced production technologies to upgrade their competency. This forced technological up-gradation competition from Uniqlo has benefitted the partner factories by transforming them into leading suppliers with the industry's largest production capacities.²⁸ Also, to maintain standardized quality and implement quality control across

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production, Uniqlo's stations a team of expert textile professionals who command a minimum of 30 years of experience each in Japanese textile and are referred to as “*Takumi*” at each partner factory.²⁹ The team consists of textile and sewing *Takumi* who lend their support and expertise to the factories in sewing, dyeing, material production techniques, and occupational safety while maintaining deep connections with the staff.

Sales: The 2015 logistics meltdown led to the accumulation of unsold inventory, which forced Uniqlo to upgrade and transform its warehouse and distribution system. It partnered with global logistics giant Daifuku to automate its Tokyo warehouse into a 24-hour operation with a 90% staff reduction. The technological result helped cut the significant time between order and dispatch, and work execution increased 32 times. It also committed to spending an extra \$900m for other global warehouses to address the labor shortage, late delivery, and storage cost.³⁰ The inventory control team maintains the optimum level of the store inventory and dispatches new products to address demands weekly. Uniqlo has adopted an unconventional amalgamation of its online and offline presence. Both the channels promote each other, and online channels have helped drive more sales to its brick-and-mortar stores.³¹ This process works via Uniqlo's mobile application, which provides end-to-end use of the use online channel. Nevertheless, it also maps the customer's geographical location, shows the nearest Uniqlo's retail store and promotes promotions exclusively available in the brick-and-mortar store.³²

When the customer visits the stores, they find a 'digital customer-first approach. The store helps customers explore and learn about the tech behind creating fabrics along with massive LED screens, bright lighting, and friendly store managers who create a holistic and immersive customer experience. Also, with the Integration of AI-powered assistant “Uniqlo IQ” with the physical store, Uniqlo has taken an extra step forward with the personalization experience. It helps the user explore new products through different verticals. Even though Uniqlo offers a significantly lower product count than H&M and GAP, it still provides recommendations based on quirkier factors. The addition of voice-powered features and online customization features for blazers and shirts help fill the customer gap and make the experience unique for its users.^{33,34}

Uniqlo's Two Closest Competitors

Zara

Amancio Ortega, the founder of Inditex (parent company of Zara), built the retail giant by establishing Confecciones Goa in 1963 as a dress-making

workshop for housecoats and robes in north-western Spain. By the early 1980s, Zara had a stronghold in the Spanish retail business and had expanded to several major Spanish cities. It continued its expansion as Zara went international with its first store in Portugal in 1988, and the following year went transatlantic as it stepped into the US market. Further expansion into foreign markets continued with Mexico (1992), Greece, Belgium, and Sweden (1993), which became a globally recognizable brand.³⁵ By the end of the fiscal year, 2001, ZARA successfully went public with its Initial Public Offering (IPO), which was oversubscribed by 15.9 times.³⁶ The trust shown by investors in the management and future growth of the company has been inch-perfect.

In 2021, the ZARA store count has nearly doubled to 2085 from its IPO listing date, along with a presence in 96 markets globally. It clocked annual sales over € 20.4 billion and a net income upwards of € 1.11 billion.³⁷ This success can be attributed to ZARA's unique business model of quick response. It starts with the design process via Inditex, which in-houses 700 designers who churn out 50,000 fashion creativities per year. The designs are in constant sync with customer feedback, and the sketches see the day of light from the drawing board to the stores in just six weeks.³⁸ This is achievable due to its robust supply chain & strategic location of its logistic center and production houses. Unlike its competitors, who have outsourced production to Asian countries and have a long wait time, ZARA's competitive advantage lies in its quick response time.

A further deep dive into Zara's financials shows its little expenditure on the advertisement segment compared with the industry average. It aligns with its strategy to save costs related to advertising and marketing, avoiding brand commercials or collaboration with famous stars. On the contrary, it has invested and built a solid social media presence with 45.4 million Instagram followers, way ahead of its competitors via social media marketing that uses endorsements and product mentions from influencers (individuals who have a dedicated social following and are viewed as experts within their niche) to drive its overall sales. Moreover, it focuses on opening stores in high-density city centers where high-end shoppers like to visit.³⁹ In the pandemic-hit year 2020, the fashion industry was heavily hit due to global lockdowns and dampened customer demand. According to FY2020, a staggering 70% & 40% reduction in annual net sales and EBITDA, respectively, on a year-over-year basis.⁴⁰ To trim further losses and shift focus to e-commerce and online sales, it further announced the closure of 1200 stores worldwide in the next two years.⁴¹

H&M

Erling Persson, the founder of the retail giant H&M, started with a women's clothing store named Hennes in Västerås, Sweden, in 1947. It gradually expanded its footprint to Stockholm and pursued its first international expansion to Norway in 1964. In 1968, with the acquisition & merger of Mauritz Widforss, men's & children's clothing segments were introduced, and the brand was renamed Hennes & Mauritz or commonly referred to as H&M.⁴² With Steffan Persson, the founder's son taking the reins of Europe's largest retail clothing chain, large city billboards replaced traditional newspaper advertising. Supermodels from The Big Six – like Cindy Crawford, Elle Macpherson had turned to the regular campaign models for H&M campaigns along with famous actors dressing up in H&M apparel spoke about H&M's charisma in the fashion industry.⁴³ However, the 2000s marked the most significant decade for the Swedish retail giant as its footprint expanded to the US and the emerging economies of Asia. It also began collaborating with famous designers like Versace, Karl Lagerfeld, Sabyasachi, and thus with the availability of affordable designer products at every H&M store, and its popularity rose even further.⁴⁴

In 2021, the firm operated the highest single-brand stores globally, far more than ZARA and Uniqlo. Its success is due to its distinct business model, which differs on many levels from its closest competitors. It works with over 250 in-house designers, pattern makers, and buyers at H&M's design center in Stockholm, better known as White Room, who diligently determine stocks and execute its two-fold design process.⁴⁵ It includes planning long-term collections and real-time designs driven by customers. As H&M outsources all its production, the teams closely coordinate with 800 independent suppliers globally, with 30 strategically located oversight offices or production centers.⁴⁶ According to the company's latest annual report, 2020, the net sales were down 20% year-on-year, and the operating margin was just 1.7% in 2020 compared to 7.5% in 2019. The company also announced the closure of net 250 H&M stores globally by the end of 2021.⁴⁷ The number of stores, financials and key success factors of Uniqlo and its closest two competitors are depicted in Table 1 and Table 2, respectively.

Table 1. Number of Stores (Uniqlo, Zara and H&M)

Countries	Uniqlo		ZARA		H&M	
	FY2019	FY2020	FY2019	FY2020	FY2019	FY2020
Australia	20	23	19	19	49	49
Belgium	3	3	87	81	98	93
Canada	11	12	42	41	95	96
China	711	767	570	337	520	505
Denmark	1	1	6	5	112	105
France	24	22	284	274	235	228
Germany	9	9	127	120	466	457
Hong Kong	29	31	30	24	26	24
India	0	3	25	25	47	49
Italy	0	1	384	357	181	174
Japan	817	813	145	133	14	115
Malaysia	49	50	20	19	47	50
Netherlands	1	1	76	75	138	135
Russia	37	42	558	521	147	155
Singapore	28	25	24	23	14	13
South Korea	188	163	59	56	53	55
Spain	2	4	1580	1411	167	166
Sweden	1	2	21	16	117	168
Taiwan	67	68	23	22	12	13
The Philippines	58	60	21	23	40	41
UK.	13	15	108	102	305	289
US.	51	50	99	99	593	582
Vietnam	0	4	5	5	8	9
Others	1469	1461	3156	3041	1592	1447
Total Stores	3589	3630	7469	6829	5076	5018

Source: Compiled from company records and websites

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Table 2. Uniqlo, Zara, and H&M: Financials and Key Success Factors

	Uniqlo	ZARA	H&M
Financials			
Net sales (\$ million)	19061.07	24580.72	21823.92
COGS (\$ million)	9801.69	10859.04	10908.63
Gross Profit (\$ million)	9259.37	13722.89	10915.29
Operating Income (\$ million)	1417.09	1815.66	361.61
EBITDA (\$ Million)	3104.61	5484.34	3389.96
Net Income (\$ Million)	857.36	1330.12	145.04
Cash & Cash Equivalent (\$ million)	10376.04	8913.25	1929.99
Depreciation & Amortization (\$ million)	1687.52	3668.67	3028.35
Market Capitalization (\$ billion)	63.69	91.93	35.07
Return on Equity (%)	9.50%	8.00%	2.20%
Key Success Factors			
Product offerings on retailer's home website	6209	9198	20860
Availability of sizes	3-5	2-7	3-2
Average number of colors available	3-3	1-4	1-9
Total number of stores	3630	6829	5018
Number of in-house designers	Not disclosed	700	250+
Full-time employees	57727	125381	110325
Social Media Presence			
Instagram followers of the official page (Millions)	Under 10	45.5	37.3
Facebook likes of the official page (Millions)	Under 10	29.8	39.6
Technology Adoption			
Use of different technologies	Project Arike – IoT, AI & Big Data	The Cube - Monorail connected distribution center	Worth Global Styles Network(Forecast) & global IT infrastructure

Note: All the above data is consolidated group data which includes subsidiaries of the parent company. In case of Uniqlo 1 USD to J.P.Y. = 105.39; In case of Zara 1 USD to E.U.R. = 0.8249; In case of H&M 1 USD to S.E.K. = 8.5728.

Source: Compiled from the different sources, including company's annual reports, library data, reviews and company's websites.

Discussion

The case of Uniqlo highlighted the critical aspects of the fast-fashion industry in general and one of the Fast Retailing Group businesses in particular. We considered the journey of Uniqlo from its inception in March 1949 to the current 2021 Covid-19 pandemic and carefully examined the components of its business model. In doing so, we also highlighted the competitive landscape and international expansion of Uniqlo and its two closest competitors.

Managerial Implications and Lessons

Based on the above analysis and discussions, the four specific takeaways that may be considered Uniqlo's recipe for attaining market leadership position in Japan and Asia and across the world in casual clothing are summarized below.

First, importing ideas from beyond industry and home country boundaries: Uniqlo's can import new business ideas from beyond its industry and the Japanese boundaries. This has helped the firm to keep innovating its business model as well as its products. For example, the initial idea of the SPA business model was copied from The Limited and Gap as it enabled end-to-end control over planning, production and sales process.⁴⁸ The founder and president of FRG have been quoted to say that it treats Apple as its largest competitor because of FRG's desire to be the most innovative company globally.

Second, value innovation by offering high-quality products at affordable prices: Through the continuing trial and error process, Uniqlo has tried to master the art of balancing two opposing attributes of value (quality) and cost. Through more appropriate use of resources and its deployment, it has offered quality products at affordable prices. Instead of hiring too many in-house designers, it has partnered with multiple established fashion designers, thus avoiding fixed costs. In the recent past, to save cost and enhance quality control, it has reduced the number of contracted factories to half (from 140 to 70) and have deployed a quality control team called "takumi" in these factories.⁴⁹ Also, Uniqlo builds competition between primary and potential partner factories to get competitive prices from suppliers and have a better quality control mechanism in place.

Third, distancing itself from closest competitors. Over the last seven decades of its existence, Uniqlo has smartly distanced itself from its closest competitors, i.e., Zara and H&M. The company has adopted a diet-fast-fashion approach by focusing on quality and longevity of its products through the use of innovative technology and strategic partnerships.⁵⁰ It has avoided imitating its two closest competitors in terms of price and non-price attributes, thus playing a positive-sum game.

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Finally, the importance of an open, differentiated and circular business model: In the open innovation business model, there is more knowledge spillovers and allows firms to appropriate knowledge.⁵¹ It helps seize the white space and provide the critical tools the firm needs to develop new ways of creating value for customers.⁵² In the case of Uniqlo, the firms appropriating this knowledge includes the prospective partners and other key stakeholders, including the employees and the key competitors. This supports the firm to build consensus among employees and key partners, distance itself from closest competitors, and avoid playing a zero-sum game.

Closing Remarks

Overall, this article highlights multiple managerial insights and lessons towards attaining a market leadership position in the casual clothing business. It is also helpful as a case study to be discussed in a classroom and boardroom setting involving different participants, including business scholars, practitioners, or business executives. Some of the discussion questions are listed below.

Discussion Questions

- *Discuss the global value chain concerning the fast fashion industry?*
- *Who are the top three fast-fashion retailers in the world? Who is leading and why?*
- *What are the different elements of Uniqlo's business model? Is it unique? How has it evolved over the last seven decades?*
- *How should Zara and H&M react to Uniqlo's strategy during the Covid-19 pandemic?*
- *What is the secret recipe for attaining a market leadership position in the fast fashion industry?*

Authors

Prof. (Dr.) Rohit Kumar is currently working as an Assistant Professor at Indian Institute of Management (IIM), Ranchi. He has done his Ph.D. in the area of Strategic Management from Indian Institute of Foreign Trade (IIFT), New Delhi and MBA in Healthcare Management from Indian Institute of Health Management Research (IIHMR), Jaipur. He has completed his Executive Education in Participant Centered Learning from Harvard Business School, Boston, USA. He is a university Rank holder and has more than sixteen years of teaching and corporate experience. He has published more than thirty research papers in peer-reviewed Journals and has presented his research work in multiple international management conferences in India, USA, Germany, Shanghai and Hong Kong. He is also serving as the President of Institution Innovation Council (IIC), IIM Ranchi, BoG Member of

IIMMR Delhi and Advisory Member of the Jharkhand State Evaluation Board, Jharkhand Innovation Lab. He is an Accredited Management Teacher (AMT) conferred by Centre of Management Services of All India Management Association (AIMA). His research interest is in the field of strategic management, building core competencies, business model innovation and entrepreneurship.
email: rohit.k@iimranchi.ac.in

Mr. Shubh Majumdarr currently pursues a doctoral degree in General Management at the Indian Institute of Management Ranchi, India. He earned his B. Tech in Electronics and Communication (Distinction) from Birla Vishvakarma Mahavidyalaya, India. His research interest includes Entrepreneurship, Strategy, and technology-related topics. He has previously interned at the Indian Institute of Management Ahmedabad, India, and is familiar with advanced quantitative and qualitative methods. He has hands-on experience with SPSS, R Programming, and Bibliometric software like VosViewer, Citespace. He has been a regional finalist (Manila, Philippines) at HultPrize-2021 by Hult Business School and secured the second position at National level Hackathon.
email: shubh.majumdarr20ph@iimranchi.ac.in

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