UNIQLO: A GLOBAL SUPPLY CHAIN TO BE
LEONARD, NICOLE, NIKLAS & SOFIE
LUND CONSULTANCY TEAM
Agenda

- Analysis
- Alternative actions
- Recommendation
- Implementation
- Financial aspects
- Risks
- Conclusion
How should UNIQLO setup its production and sourcing structure, as well as its end consumer distribution in Europe and North America to enable future growth?

By creating an OMNI-channel strategy to maximize customer experience whilst focusing on economies of scale and quality in production.
Expansion possibilities favourable

Number of stores WW

- JAPAN: 4500 million
- ASIA: 450 million
- NA: 700 million
- EUROPE: 

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The UNIQLO brand at its core

CVP
- Fashion-basics
- Colors
- Quality

Relationships
- Loyalty
- Exessable

Position
- Worlds only and best LifeWear brand

Expression
- Logo
- Simple

High quality functional fashion at competitive prices

Personality
- Easy going
- Outdoorsy

Mission/Vision
Create better lives through functional fashionable wears

Culture
- Japanese
- Humble

Competencies
- Material – knowledge
- Track record
The UNIQLO offer allows for responsible production in known territory

<table>
<thead>
<tr>
<th>For whom (Ideal customer)</th>
<th>Mid-aged people with a feeling for quality and fashion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the business of (Market defined)</td>
<td>Global LifeWear (Fast fashion)</td>
</tr>
<tr>
<td>Promise (needs satisfied)</td>
<td>High quality functional fashion at competitive prices</td>
</tr>
<tr>
<td>Proven by (competencies)</td>
<td>Fabric knowledge, track record, customer demand</td>
</tr>
</tbody>
</table>
The competitors are positioned differently

Trend sensitivity in collections

- UNIQLO
- M&S
- GAP
- Zara
- H&M
The ‘Need for Speed’ in production is favorable

Trend sensitivity in collections

H&M

GAP

M&S

UNIQLO

Zara

Need for speed

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Two different models have appeared for fast fashion

The H&M way
- **Longer lead-times**
- Monitoring important
- Dispersed globally

“Fashion at the best possible price in a sustainable way”

The Inditex way
- Capital intensive
- Vertically integrated
- **Short lead-times**
- Responsive to trends

Trendy fashion exactly at the right time
The difference between production lead time and customer delivery time is fundamental.

**Production lead time**
- Driven by trend sensitivity in offer

**Delivery lead time**
- Driven by customer demand and expectations
The customers are demanding speed in delivery

**OFFLINE**
- Availability in store
- Accessibility to store
- Store Experience

**FONLINE**
- OMNI channels
- Availability
- Price
- Everywhere
- Convenience
- Delivery time
- Flexibility

“For customers where ever they are and how ever they chose to shop”

**ONLINE**
- Mobile and website experience
- Delivery time
- Cost of delivery
Leverage on strengths and capture opportunities

**Strengths**
- Fabric knowledge
- Unique position
- Brand in east
- IT structure

**Weaknesses**
- Regional presence
- Brand recognition in west

**Opportunities**
- Changed shopping patterns
- Demand for fashion
- Sustainability

**Threats**
- Sustainability
- Industry reputation
- Competition

**Internal**

**External**
A main challenge appears

How should UNIQLO setup its production and sourcing structure, as well as its end consumer distribution in Europe and North America to enable future growth?
Three alternatives to tackle challenges

1. More production closer to end consumers

2. Keep production location and use high speed transportation systems

3. Keep production and put heavy focus on an OMNI strategy towards customer
Alternative 1, focus on close-by production

1. More production closer to end consumers
   - Enable adaptability towards distribution and end consumer
     - Shortest possible lead times
     - Equal focus on online stores and physical stores

2. Keep production location and use high speed transportation systems

3. Keep production and put heavy focus on an OMNI strategy towards customer
Alternative 2, focus on high speed transport to distributors

1. More production closer to end consumers
2. Keep production location and use high speed transportation systems
   - Ship products from producer to distributor by air
   - Enable cheap production and responsiveness
   - Equal focus on online stores and physical stores
3. Keep production and put heavy focus on an OMNI strategy towards customer
Alternative 3, focus on quality and OMNI solutions

1. More production closer to end consumers
2. Keep production location and use high speed transportation systems
3. Keep production and put heavy focus on an OMNI strategy towards customer
   - Ship garments from producers to distributor by sea freight
   - Focus on economies of scale and quality in production
   - OMNI-channel focus including all channels and erasing barrier between online and offline
Four critical factors for success

Customer needs - Does the alternative what the customer want?

Price competitiveness - Does the alternative enable value for money?

Sustainability - Is the alternative eco friendly?

Feasibility - Is the alternative manageable and financially viable
Four critical factors for success

1. More production closer to end consumer
   - Customer needs: YES
   - Price competitiveness: SEMI
   - Sustainability: YES
   - Feasibility: NO

2. Keep production and use high speed transport
   - Customer needs: YES
   - Price competitiveness: SEMI
   - Sustainability: NO
   - Feasibility: YES

3. Keep production and put focus on OMNI
   - Customer needs: YES
   - Price competitiveness: YES
   - Sustainability: YES
   - Feasibility: YES

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By creating an OMNI-channel strategy to maximize customer experience whilst focusing on economies of scale and quality in production
Timeline overview

YEAR 1
- Internal communication
- Production re-focus
- Research and development of strategy

YEAR 2-3
- Roll-out of distribution strategy
- Roll-out of omnichannel strategy
- Marketing campaigns

YEAR 4-5
- Continuous improvement of strategy
- Monitor and measure implementations
Implementation in a four step process

Production

Distribution structure

Uniqlo channel strategy

Marketing actions
Stay true to the manufacturing that made you famous

- Inticrate part of Uniqlos core offering and competency
  - Emphasize on the Kaizen philosophy and the dedication to great quality

Keep existing production structure in Asia
  - Focus on global sizing
  - Utilise history of knowledge
  - Focus on the unique technology focus within Uniqlo

Sustainable approach
  - Geographically centered
  - Water use low
  - Power to effect
Increase customer responsiveness through better a distribution structure

One production
Regional distribution centers
Quick responsiveness
System report back to production

R&D Production

North America
Europe

Divided by offline and online
Being there for the customer, whenever they want, wherever they are

Creating the 360 degree experience

- Currently there is more focus on offline than online
  - 4% of sales but strong growth potential
  - Europe and North America are highly developed with big needs.

- Re-invent online platforms – APP AND ONLINE
  - Become more available for target group
  - More choices – need to adapt

- Create online community
  - Virtual experience, try-outs, customer service, sizing, style advise

- Delivery options
  - 2-day shipping – Regional warehouses
  - Alternatives to fit every customer
UNIQLO will communicate the IT OMNI channel approach through multi-channel marketing

- Communicate innovativeness, quality and low price
  - One product: Many styles
- Market through the “IKEA way”
  - JAPAN AT HEART
  - Functionality and simplicity

**ONLINE**
- Social media
  - Bring back the simple
- Simple is the opposite of boring
- “One shirt used in 10 different ways”

**OFFLINE**
- In-store advertising
- Event association
- Sponsorships
<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tr>
<td>Production</td>
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<td>Global size</td>
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<td>Distribution</td>
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<td>Research locations</td>
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<td>Lease and setup</td>
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<td>Inventory systems</td>
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<td>Offline</td>
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<td>Online</td>
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<td>Communication</td>
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<td>Monitor and measure</td>
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# New investment in U.S and Europe

## Investments

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<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Physical</td>
<td></td>
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<tr>
<td>New distribution center</td>
<td></td>
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<tr>
<td>2 large</td>
<td>293,866,667</td>
<td>222,933,333</td>
<td>222,933,333</td>
<td>222,933,333</td>
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<tr>
<td>5 smaller Europe</td>
<td>146,933,333</td>
<td>111,466,667</td>
<td>111,466,667</td>
<td>111,466,667</td>
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<tr>
<td>Production, global sizing</td>
<td>14,693,333</td>
<td>11,146,667</td>
<td>11,146,667</td>
<td>11,146,667</td>
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<tr>
<td>Logistics</td>
<td>69,692,000</td>
<td>124,842,667</td>
<td>124,842,667</td>
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<td>Total</td>
<td>757,492,000</td>
<td>626,442,667</td>
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<tr>
<td>Digital</td>
<td></td>
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<tr>
<td>Omni</td>
<td>37,874,600</td>
<td>18,937,300</td>
<td>9,468,650</td>
<td>4,734,325</td>
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<tr>
<td>New improved website</td>
<td>15,149,840</td>
<td>7,574,920</td>
<td>3,787,460</td>
<td>1,893,730</td>
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<tr>
<td>New app</td>
<td>37,301,813</td>
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<td>Online marketing</td>
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<td>41,964,540</td>
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<td>Release campaign</td>
<td>30,678,426</td>
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<tr>
<td>Customer service</td>
<td>7,574,920</td>
<td>6,264,427</td>
<td>6,264,427</td>
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<tr>
<td>Total physical and digital</td>
<td>848,769,786</td>
<td>730,608,267</td>
<td>687,927,743</td>
<td>681,299,688</td>
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## Split view of new distribution centers

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Leasing of building</td>
<td>2,533,333</td>
<td>2,533,333</td>
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<tr>
<td>Set up costs physical</td>
<td>11,400,000</td>
<td>506,667</td>
<td>506,667</td>
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<tr>
<td>Set up costs digital</td>
<td>253,333</td>
<td>253,333</td>
<td>253,333</td>
</tr>
<tr>
<td>New employees</td>
<td>19,000,000</td>
<td>19,000,000</td>
<td>19,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>33,186,667</td>
<td>22,293,333</td>
<td>22,293,333</td>
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<tr>
<td>Total of 7 regional</td>
<td>232,306,667</td>
<td>156,053,333</td>
<td>156,053,333</td>
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</table>

<table>
<thead>
<tr>
<th>Regional Europe</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Leasing of building</td>
<td>2,533,333</td>
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<td>253,333</td>
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<tr>
<td>New employees</td>
<td>15,200,000</td>
<td>19,000,000</td>
<td>19,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>29,386,667</td>
<td>22,293,333</td>
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<tr>
<td>Total of 7 regional</td>
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<td>Set up costs physical</td>
<td>114,000,000</td>
<td>5,066,667</td>
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<td>Set up costs digital</td>
<td>2,533,333</td>
<td>2,533,333</td>
<td>2,533,333</td>
</tr>
<tr>
<td>New employees</td>
<td>152,000,000</td>
<td>190,000,000</td>
<td>190,000,000</td>
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<tr>
<td>Total</td>
<td>293,866,667</td>
<td>222,933,333</td>
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</tr>
</tbody>
</table>
Assumptions made to secure the new implementation strategy

Assumptions

• Higher growth than industry due to new market potential = 19 % compared to 9,5%
• Distribution centers the main new investment cost, split up in physical and digital costs
• Digital marketing strategy the other main category of investment costs
• In total employee: 120 worldwide in distribution centers and digital maintenance
Net change with implementation nearly doubles the profit to 2018

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<td>Revenue</td>
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<td>2336565000</td>
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<tr>
<td>Costs</td>
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<td>681,299,688</td>
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<tr>
<td>Net change when implementing</td>
<td>1,380,000,000</td>
<td>801,230,214</td>
<td>1,232,891,733</td>
<td>1,648,637,257</td>
<td>2,099,212,662</td>
</tr>
</tbody>
</table>

Near double in net profit
Risks are manageable

RISKS

1. Inventory level too high at main distributor
2. Channel cannibalization
3. OMNI channel strategy not attracting customers
4. Shipping from distributor to end customer not feasible

MITIGATION

1. Through IT-solutions and with focus on forecasting
2. New channels will mainly lead to new customers not change the existing consumer pattern
3. Extensive consumer research and marketing campaign to increase awareness
4. Multiple shipping options and local distribution centers
No risk in the highest zone

RISKS

1. Inventory level too high at main distributor
2. Channel cannibalization
3. OMNI channel strategy not attracting customers
4. Shipping from distributor to end customer not feasible
Main Challenge

How should UNIQLO setup its production and sourcing structure, as well as its end consumer distribution in Europe and North America to enable future growth?

Recommendation

By creating an OMNI-channel strategy to maximize customer experience whilst focusing on economies of scale and quality in production.