

UNIQLO CASE ANALYSIS

Name
Business
Professor
Date

Bidforwriting.com

Uniqlo Case Analysis

External: PESTEL Analysis

Political: Canada is a democratic country with a parliamentary system and operates a multiparty political environment, and its governance system has not changed frequently and significantly in recent years. Canada maintains good relations with most countries in the world, especially, the US and European countries. Canada is also one of the safest countries in the world due to the low crime rate, personal liberty and developed social management and public service system. Overall, Canada provides a stable political environment for investors to run diverse businesses in the long term.

Economic: Open-market economic system of Canada, and its high degree of preferential policies and regulatory efficiency contribute to a healthy competitive environment. Nevertheless, Canada has the most globally connected economy in the world, it is the member of Co-operation and Development (OECD), Comprehensive Economic and Trade Agreement (CETA) and Comprehensive Progressive Trans-Pacific Partnership (CPTPP). Canada presented a solid economic growth in 2018 that GDP rose 2% across the country, with Ontario and BC, two provinces have Uniqlo stores, increased 2.2% and 2.4% respectively.¹ Furthermore, Canadian household disposable income increased by 3.5% to \$1,221,273 in 2018, and the income spends on clothing and footwear raised to \$50,019 which amounts to 4.1% of disposable income.² From January to April this year, consumer price index (CPI) for clothing and footwear increased from \$92.2 to \$97.2,³ and Canada's inflation rate has increased to 2%, a proper level, compared with just 1.4% at the beginning of this year. To be more specific, the inflation rate for clothing and footwear is 1% to 1.5% in this four-month period.⁴ This low inflation rate is beneficial for clothing retailers in the market that consumers intend to consume more. Another key factor is "Canada's low-interest rates that encouraged household borrowing and steadily rising disposable incomes, consumer spending has increased in recent years, including the growth of 4.6% between 2016 and 2017."⁵ The low-interest rate was also attractive for investors by obtaining cheap loans to reduce financing cost.

Social:

The social factors that impact UNIQLO are a direct reflection of the society that UNIQLO operates in, and encompasses culture, beliefs, attitudes and values that the majority of the population may hold as a community. The impact of social factors is not only important for the operational aspect of UNIQLO, but also for the marketing aspect of the organization. A thorough understanding of the customers, their lifestyle, level of education and beliefs in a society, or

¹ Statistics Canada, "Gross domestic product by industry: Provinces and territories, 2018," Census Profile, 2018 Census, last modified May 01, 2019, <https://www150.statcan.gc.ca/n1/daily-quotidien/190501/dq190501a-eng.htm>

² Statistics Canada, "Distributions of household economic accounts, income, consumption and saving, by characteristic," last modified May 26, 2019, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610058701>

³ Statistics Canada, "Consumer Price Index, monthly, not seasonally adjusted," last modified May 27, 2019, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401>

⁴ <https://tradingeconomics.com/canada/inflation-cpi>

⁵ Euromonitor International, "Consumer Lifestyles in Canada," Country Report, November 2018, Passport.

segment of society, would help design both the products and marketing messages that would lead to a venture becoming a success.

Social factors that affect UNIQLO

The social factors include demographic factors such as population, age, and gender, impact of the marketing of any product⁶. Makeup is focused mostly on women, and, thus, the makeup line targets the female population mostly. Class distribution is also of paramount importance: UNIQLO, with its most premium products, targets the wealthy population and not the lower class. UNIQLO, based on the recent environmental concerns must continue to be aware of the level of health standards, its response, and reactions to claims, especially, on harassment and environmental protection which must prevail in the industry as a whole, and thus, are expected from any company as they are seen as the norm.

Technological Factors that Impact UNIQLO

Technology has the power to affect the price, competitive landscape and the marketing strategies of any industry within a short period of time. Thus, it is important for firms to be consistent with innovation, not just for the sake of profit maximization and market leader, but also to minimize the chances of obsolescence in the near future. The recent technological developments and breakthroughs made by other competitors inspire the company. If UNIQLO identifies a new invention in technology that is quickly gaining popularity in the industry, it must strive to monitor its popularity and how fast it is growing or penetrating and disrupting its competitors' profits or revenues.

It analyzes how easy will the technology be diffused to the other competing firms in the industry, may lead to other firms adopting the technological features of UNIQLO. It determines how much improvement of technology would transform what the product initially offers. If this improvement is drastic, then other firms in the industry suffer more heavily. The impact of the technology on the costs that most companies in the industry are subject to have the potential to increase or reduce the resulting profits greatly. If these profits are great in number, they may be reinvested into the research and development department, where future technological innovations would further raise the level of profits, and so on, ensuring sustainable profits over a long period of time.

Environmental Factors that Impact UNIQLO

Different industries hold different standards of environmental protection in their head as the norm⁷. This norm then dictates what every company should aim for, in the least, to prevent becoming the target of pressure groups and boycotts due to a lack of environmental conscientiousness. A company in the textile industry, for example, is not expected to incur the

⁶ Sarsby, Alan. *SWOT analysis*. Lulu. com, 2016. Retrieved from https://books.google.com/books?hl=en&lr=&id=Yrp3DQAAQBAJ&oi=fnd&pg=PA1&dq=pestel+analysis+political+factors&ots=OCoj_xB - H&sig=CzTYTp0uHMUD1UQK3ciA_2Na3IU

⁷ Dockalikova, Iveta, and Jana Klozikova. "MCDM Methods in Practice: Determining the Significance of PESTEL Analysis Criteria." In *European Conference on Management, Leadership & Governance*, p. 418. Academic Conferences International Limited, 2014.

same level of pollution and environmental degradation as an oil company⁸. The new consumer, armed with the interest and the knowledge it carries, prefers to give its business to companies it views as more ethical, particularly about the environment in the wake of global warming.

The environmental factors that impact UNIQLO

These are issues within the company's external environment that affect its operations⁹. The current weather and climatic conditions affect the ability of the company to manage the transportation logistics of resources and products and services of the company. This, in turn, would affect the delivery dates of the final product in the case of, say, an unexpected monsoon. Climate change would also render some products useless. For example, in the case of textiles, in countries where the winter has become very mild due to Global Warming, warm winter clothes have much less of a market. Those companies that produce extremely large amounts of waste may be required by law to manage their environmental habits. This may include pollution fines and quotas, which may place a financial strain on UNIQLO. If the company contributes further to the endangerment of the species, the company may risk the wrath of the public and the law which may lead to losses from boycotts and closure.

Legal factors that affect UNIQLO include;

Legal factors relate to the matters of legislation that affect business operations¹⁰. The legal factors that affect UNIQLO include;

Intellectual property laws are put in place to safeguard the ideas and patents of people and companies may illegitimately profit on someone's hard work or invention. Data protection laws have also been put in place to safeguard company information and prevent other people from using the company's stolen information which may result in the company losing its competitive edge.

Discrimination laws have also been enacted by the government to protect employees against discrimination and exploitation by the company, ensuring that everyone at the company is treated fairly, provided with equal opportunity irrespective of gender, religion, ethnicity or sexual orientation.

The government has also put in place health and safety laws to protect employees from working in risky or horrible working conditions, forced labor and insecure environments. The company has a corporate social responsibility to protect its employees from working in hazardous conditions. Laws have also been instituted or put in place to ensure standardization and quality production, implementation of reasonable price for products to ensure customer safety.

UNIQLO porter's Five Forces

⁸ Yüksel, Ihsan. "Developing a multi-criteria decision making model for PESTEL analysis." *International Journal of Business and Management* 7, no. 24 (2012): 52.

⁹ Ho, Joseph Kim-Keung. "Formulation of a systemic PEST analysis for strategic analysis." *European academic research* 2, no. 5 (2014): 6478-6492.

¹⁰ Noe, Raymond A., John R. Hollenbeck, Barry Gerhart, and Patrick M. Wright. *Human resource management: Gaining a competitive advantage*. New York, NY: McGraw-Hill Education, 2017.

Porter's Five Forces model was presented by Michael. E. Porter in the Harvard Business Review in the years 1979¹¹. This model is a strategic management tool that aids in determining the competitive environment or landscape of any given industry. Each force mentioned in the model and the listed strengths helps the strategic management and planners to understand the profit potential any given industry. The strengths of each of the listed forces vary depending on the industry, meaning that each industry is unique and different in terms of profitability and attractiveness¹². The Porters Five Forces include;

- The threat of New Entrants
- Bargaining Power of Suppliers
- Bargaining Power of Buyers
- The threat of Substitute Products or Services
- Rivalry Among Existing Firms

The Porter's Five Forces model can be applied in assessing the industry that UNIQLO operates, in relation to its attractiveness to the inherent profitability and the information retrieved used by strategic planners to make strategic decisions that affect the organization.

UNIQLO Porter's Five Forces Analysis

The threat of New Entrants

The economies of scale are one of the most difficult statuses to attain in the industry in that UNIQLO operates in, making it relatively easier for companies producing a large number of products to have an advantage in terms of cost. This makes the production of these goods costlier for new companies or entrants. Thus, the threat of new entrants is a weak force and thus might not affect the company much. Product differentiation is very strong in the industry. Firms within the industry sell differentiated product and not a standardised product. Customers also seem to prefer the differentiated products. There is a strong emphasis on advertising and customer services as well. All of these factors make the threat of new entrants a weak force within this industry. The capital requirements for starting and operating an apparel store within the industry is so high, thus, it is difficult for new companies to set up shops due to the huge expenditures to be incurred in the process. Capital expenditure is high due to the high cost of Research and Development costs. The accessing distribution networks is also easy for new companies, allowing them to easily set up distribution channels. With the few retail companies selling the products, it is relatively easy for any other company to get its commodities on the shelves. The government policies instituted in the industry enforce strict licensing and legal requirements that must be fulfilled before any company can start operating in the industry making it difficult for other companies to join the competition.

How UNIQLO can handle the threat of new entrants.

¹¹ Burns, Paul, and Jim Dewhurst, eds. *Small business and entrepreneurship*. Macmillan International Higher Education, 2016.

¹² E. Dobbs, Michael. "Guidelines for applying Porter's five forces framework: a set of industry analysis templates." *Competitiveness Review* 24, no. 1 (2014): 32-45.

The company can take advantage of its economies of scale to ward off new competition due to its cost advantage. UNIQLO can continue focusing on innovation to make differentiated products¹³. It can spend part of its profits on marketing in order to build strong brand identification which will help it maintain its customers and gain new ones instead of losing them to new competitor.

Bargaining Power of Suppliers

Refers to the power of suppliers with regards to the control of supply prices¹⁴. The number of suppliers within the industry that the company operates is high compared to the number of buyers available. Meaning that the suppliers do not have or have less control over prices, thus, making the bargaining power of suppliers a weak force. The product that is supplied by these suppliers is standardized, not highly differentiated and has low switching costs making it easier for the company to find alternative suppliers. This makes the bargaining power of suppliers a weaker force¹⁵. The suppliers in the industry do not contend or compete with other products in the industry, meaning that there is basically no substitute product for the supplies. This makes the bargaining power of suppliers a mildly stronger force within the industry. The suppliers do present the company with a credible threat with regards to forward integration in the industry. This makes the bargaining power of suppliers a weaker force.

How UNIQLO can handle the Bargaining Power of Suppliers

The bargaining power of suppliers relates to the ability of an industry supplier to influence the cost of raw materials or products supplied to the producers¹⁶. UNIQLO can obtain raw materials from its suppliers at a low cost due to the availability of many alternative suppliers. If the costs are high for UNIQLO, it can change its suppliers due to the minimum switching costs. The company can also have multiple suppliers in its supply chain. For instance, the company can have different suppliers based on different geographic locations to ensure efficiency within the supply chain¹⁷. The industry provides an important customer for the suppliers, UNIQLO Company can, thus, benefit from developing or creating close ties with its key suppliers where they benefit symbiotically from each other.

Bargaining Power of Buyers

The number of apparel suppliers in the industry where UNIQLO operates is higher than the firms producing the main products, meaning that the buyers have very few firms to select and buy from. Thus, the buyer does not have control over prices, making the bargaining power of buyers a relatively weak force in the industry. There is a product differentiation in the industry is high, which reduces the chances of buyers finding alternative firms with similar goods. This creates a difficulty in switching, thus, making the bargaining power of buyers a weaker force.

¹³ Chambolle, Claire, and Sofia B. Villas-Boas. "Buyer power through the differentiation of suppliers." *International Journal of Industrial Organization* 43 (2015): 56-65.

¹⁴ Takata, Hidesuke. "Effects of industry forces, market orientation, and marketing capabilities on business performance: An empirical analysis of Japanese manufacturers from 2009 to 2011." *Journal of Business Research* 69, no. 12 (2016): 5611-5619.

¹⁵ Chambolle, Claire, and Sofia B. Villas-Boas. "Buyer power through the differentiation of suppliers." *International Journal of Industrial Organization* 43 (2015): 56-65.

¹⁶ Fabbri, Daniela, and Leora F. Klapper. "Bargaining power and trade credit." *Journal of corporate finance* 41 (2016): 66-80.

¹⁷ Chambolle, Claire, and Sofia B. Villas-Boas. "Buyer power through the differentiation of suppliers." *International Journal of Industrial Organization* 43 (2015): 56-65.

The income of most of the buyers within the industry is relatively low, meaning that there is enormous pressure to buy the goods at low prices, thus the consumers are price sensitive. There is no significant threat to the buyers that may force them to integrate backward. This makes the bargaining threat of buyers a weaker force within the industry.

How UNIQLO can handle the Bargaining Power of Buyers

UNIQLO can concentrate on innovation, creativity, and differentiation to ensure they attract new buyers and maintain the old ones. Product differentiation and quality production are essential to buyers within the industry. The UNIQLO Company can, thus, attract more customers by just focusing on the two factors. The company needs to create a large customer base due to the weak bargaining power of the buyers¹⁸. It can also improve by increasing its marketing efforts and building brand and customer loyalty. UNIQLO can take advantage of the economies of scale that it enjoys creating a cost advantage to allow it to sell to the consumers at low prices, especially to the low-income buyers, who form the largest group of consumers of the industry's products. This will allow the company to attract a huge number of buyers.

The threat of Substitute Products or Services

Relates to the threats posed by substitute goods that threaten to replace any firms products within a competitive industry¹⁹. There are very few substitutes' products in the industry where UNIQLO operates and those that are available, are produced by the smaller companies with no huge profits of financial muscles to compete with UNIQLO, meaning that there exist no price ceilings in the industry, thus, making the threat of substitute products a weak force. The existence of very few substitutes, which are of high quality are also more expensive and cannot be afforded by the majority of the consumers. Comparatively, the companies within the industry sell at a relatively lower price than those of the substitutes with better quality, meaning that buyers have fewer chances of switching to the substitute goods. Thus, the threat of substitute is weak within the industry.

How UNIQLO can handle the Threat of Substitute Products?

UNIQLO can focus its efforts on providing better and greater quality products. As a result, available buyers will always go for its products, due to the greater quality and the relatively lower price caused by the economies of scale it enjoys as compared to the substitute products that offer greater quality but at very high costs which cannot be afforded by the consumers. UNIQLO can continue to concentrate its effort on differentiating its products to ensure that buyers see the uniqueness of its products and do consider shifting to substitute products that have no better and unique benefits. To provide such unique benefits, the company must try to understand the various consumer needs through market research, and producing specifically what the customer needs and innovating other original products.

Rivalry among Existing Firms

¹⁸ Porter, Michael E., and James E. Heppelmann. "How smart, connected products are transforming competition." *Harvard business review* 92, no. 11 (2014): 64-88.

¹⁹ Yunna, Wu, and Yang Yisheng. "The competition situation analysis of shale gas industry in China: Applying Porter's five forces and scenario model." *Renewable and Sustainable Energy Reviews* 40 (2014): 798-805.

The number of competitor's available industry that UNIQLO operates is few. Most of the firms that compete in this industry are large in size. This means that companies in the industry cannot make moves without being noticed, this making the rivalry of the firms a weaker force within the industry. The few competitors available have a large market share, meaning that these companies will continue to engage in competition to gain market position and become market leaders. This makes the rivalry among existing firms a very stronger force in the industry. The industry is expanding very fast every year and is expected to continue in the foreseeable future. A positive industrial expansion means that the companies competing are less likely to engage in highly competitive actions due to the fact that they do not need to wrestle market share from each other. This makes the rivalry among existing firms a weaker force within the industry.

The fixed costs of production are high within the industry in which UNIQLO operates, making the companies competing to push for full capacity control. This also means that these companies are able to reduce their selling prices when the demand of their products is slacken, making the rivalry among existing firms a stronger force within the industry. The products within the industry are also highly differentiated, making it difficult for competing companies to win the customers of other companies since their products are highly unique. This makes the rivalry among existing firms a weaker force. There exist exit barriers within the industry and they are particularly high because of the initial capital outlay and investment required in terms of start-up and capital assets needed to start operation. The exit barriers also exist due to the many government regulations and restrictions, thus, making the firms within the industry reluctant close and leave their business operations, continuing to operate and produce at low profits, making the rivalry among existing firms a stronger force. The firms within the industry employ diverse strategies to ensure they survive competition, which means they are different in terms of strategic implementations. This results in the companies running into each other, regarding strategy, thus, making the rivalry among the existing firms a relatively strong force with regards to strategic implementations.

How UNIQLO can deal with the Rivalry among Existing Firm

In order to effectively deal with the rivalry, UNIQLO needs to concentrate on products differentiation to lessen the effect of competitor actions on its products²⁰. The customers will always go for unique and quality products. With the growing apparel industry, UNIQLO can focus on creating new customers bases rather than competing to win the existing ones from already existing competitive companies. It can continue to invest in market research in order to understand the existing supply-demand conditions of the industry and control productions thus saving on costs.

Implications of the Porter Five Forces.

By using the information resulting from the UNIQLO five forces analysis, strategic management teams and planners are in a position to understand how the different factors of each of the five forces affect production, operations, and profitability of the companies within the industry. A stronger force leads to reduced or lower profitability, and a weaker force means that

²⁰ Eskandari, Meysam Jafari, Meysam Miri, Sedigheh Gholami, and Hamid Reza Sajadi Nia. "Factors Affecting The Competitiveness of The Food Industry by Using Porter's Five Forces Model Case Study in Hamadan Province, Iran." *Journal of Asian Scientific Research* 5, no. 4 (2015): 185-197.

firms are in a position to make greater profitability. Based on these assessments, industrial profitability can be improved through strategic planning and implementation by the key market players.

Bidforwriting.com