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Fastest Gun in the East

By DYAN MACHAN

Tadashi Yanai, founder of Japan's Fast Retailing clothing chain, has had huge success in his homeland. Now, he's trying to replicate it globally.

Morning light streams into a conference room on the 31st floor of the Tokyo Midtown Tower, as Tadashi Yanai pulls a book off a nearby shelf and opens a precious tome he has spent many hours studying. On its thick pages are photos of men dressed in regular-looking sweaters, shirts, and slacks next to a ferocious amount of Japanese text.

Through a translator, Yanai explains how Japan, with its formal, kimono-wearing culture, never had a tradition of casual wear. The Japanese term for casual clothes is literally "Western clothes," he says. When the Japanese started going abroad in the 1880s, they brought back Western-style suits, but informal wear, he says, like sports jackets, golf shirts, and vests, didn't exist.

It does now. **Fast Retailing**, the company Yanai founded in 1984, operates more than 1,300 Uniqlo stores, two-thirds of them in Japan, with most of the balance elsewhere in Asia. Another 180 to 190 are scheduled to be opened, predominately in Asia, in the current fiscal year.



Enlarge Image

Makoto Ishida for Barron's

"I was practically brainwashed by American culture," says Yanai.

Known for its brightly colored, inexpensive casual clothing, Uniqlo has been so absorbed into Japanese society that one in four Japanese are said to own a Uniqlo down jacket, one of its trademark pieces. When *Barron's* polled a dozen university students who were recently meeting for dinner, each of them owned at least one Uniqlo piece and gave the brand a thumbs-up; eight were wearing an item by the company.

Judging by the pace of store openings and the scope of Yanai's ambition, the rest of the world may not be far behind. In addition to Uniqlo, Fast Retailing (ticker: 9983.Japan), the world's fourth-largest clothing retailer, also controls six sister labels, including higher-priced brands Theory, Helmut Lang, Comptoir des Cotonniers, Princesse Tam Tam, J Brand, and its fast-growing, low-priced fashion outpost GU. But 82% of its \$11.8 billion in sales in the fiscal year that ended in August 2013 were Uniqlo. Analysts expect sales to

reach \$12.6 billion this year.

Still, the company isn't well known in the West. Fast Retailing currently has just 17 Uniqlo stores in the U.S., mostly on the East and West Coasts. Another 15 are planned for this year. Yanai's goals in this country are large, however. The company, which trails Spain's Inditex (IDEXY), known for its Zara brand; Sweden's **Hennes & Mauritz's** (HNNMY) H&M stores; and **Gap** (GPS) globally, intends to reach 1,000 stores in the U.S. by 2020.

Yanai, 64, makes puns on his U.S. competitors: "Leslie Wexner [founder of The Limited] is limited. We are unlimited. My perspective is that there is no Gap between what we say we can do and what's achievable."

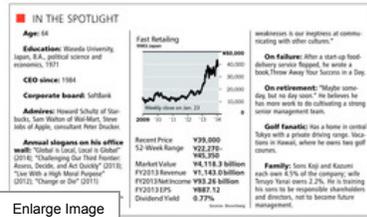
Indeed, the magnate is quick to tell anyone who'll listen that he wants to more than quadruple sales, to \$48 billion, and profits, to \$9.6 billion, by 2020, and in the process become the planet's No. 1 retailer.

That target seems overly optimistic. Uniqlo's growth highly depends on the speed at which it can open stores, which is constrained by how quickly it can find and train managers. It would need to grow in excess of 20% a year to get there. While Uniqlo is currently expanding at a breakneck 15% annually, JPMorgan analyst Dario Murata believes 10% growth, and sales in 2020 of \$24 billion, are more realistic. Gap's sales for fiscal 2013 are an estimated \$16.1 billion.

EARLY ON, YANAI DECIDED to compete on textile technology, leveraging Japan's expertise, which dates back to the 1920s, when fabrics were its biggest export. With Toray Industries, Japan's largest synthetic fiber maker, Uniqlo developed a cold-weather fabric called Heat-Tech, as well as a highly breathable fabric called Airism for hot weather and workout gear. A Japanese documentary about this partnership shows a young Toray textile manager who breaks down and cries when it seems a fabric can't be created fast enough for Uniqlo.

And unlike competitors Zara and H&M that have mastered the delivery of trendy designs from the drawing board to shops in weeks, Uniqlo focuses on high quality and low prices on streamlined basics with minimal fashion risk. Its competitive edge is in selling vast volumes of a relatively low number of products. For example, it produced more than 130 million Heat-Tech items last year.

Its stores, with revolving faceless mannequins and flashing LED lights, trick consumers into thinking there are more designs than there actually are by displaying best-selling items, such as its fleece clothing for women in as many as 130 colors, and by moving the inventory frequently around the store.



Uniqlo exports more than just clothing; it exports manners, too. At its massive Fifth Avenue store in New York, employees are trained to look customers directly in the eye, pass money and credit cards with two hands, and use a distinctively Japanese hand gesture for directing customers to cash registers.

WITH EVERY THREAD OF his inky blue sweater and crisp white shirt in place, the high priest of casual clothes makes his own informal attire look formal. Yanai's office has a sweeping view of Tokyo's Roppongi business district, and the short hall between his office and his three assistants is lined with waist-high glass vases each holding, on this day, a

long-stemmed red rose.

In a country that prizes harmony, Yanai is cut from a different cloth. He grew up in Ube, an industrial town of 70,000 in the southwestern Yamaguchi prefecture. His family lived above his father's suit store. As the only son, he was expected to take over the business, a prospect that initially didn't thrill him. In his formative years, Japan was under American occupation following World War II. "I was practically brainwashed by American culture," he says. He recalls American soldiers introducing chocolate and coffee, tastes that piqued his curiosity about the world. He soaked up American culture from movies and TV series like *Make Room for Daddy* and *Rawhide*.

In the late 1960s, social change was hitting Japan as well as the U.S. When student protests closed Waseda University, Yanai, then an undergrad, used his free time to travel the world. On a 1967 trip to Hong Kong, he met Jimmy Lai, founder of Giordano Sportswear, which was supplying The Limited with polo shirts in such vast quantities that he chartered a jumbo jet to carry them from Hong Kong to The Limited headquarters in Columbus, Ohio. Equally impressive to a 19-year-old student, Lai kept a pet bear and drove a Rolls Royce.

After graduating from Waseda in 1971 with a B.A. in political science and economics, Yanai worked first in a grocery store and then with his father. In a corner of the shop, they had a small selection of casual items—shirts, sweaters, and slacks. Yanai noticed that, unlike the sale of suits, which involved a great deal of interaction, casual clothes sold themselves. "You just put them out, and they sold," he says.

He persuaded his father to let him open his own store in Hiroshima called Unique Clothing Warehouse—its name later shortened to Uniqlo. Lines formed outside the store, and two more shops followed. But Yanai's growth plan created tension with his father. The family was reasonably well off and even owned the local movie theater. His father couldn't understand why his son would want to open additional stores when they were doing fine. "Do you want to build all the way to bankruptcy," Yanai recalls his father asking him, accusing him of being "greedy."

But the son had a different view and forged ahead. He understood the powerful influences that businesses could have on communities, having witnessed his hometown of Ube experience painful loss when the local mining company closed, forcing many of his friends to move away. "This gave me a drive to go outside," says Yanai, adding that had he grown up in more prosperous Tokyo, he might never have had the urge to build and expand.

In economically challenged Japan, Yanai introduced a fleece jacket for about \$20, a third of the competitors' price. It put him on the map; lines kept forming outside the stores. In his first 10 years, he opened more than 100 Uniqlo stores in Japan, and in 1994 the company listed its stock on the Hiroshima exchange.

At a recent 39,000 yen (\$376.35), Fast Retailing shares have doubled in the past year and quadrupled from their post-earthquake low in March 2011. Yanai is now Japan's wealthiest man; he and his family own 47.6% of the stock, worth \$18.3 billion.

The company's shares trade at a rich 40 times this year's earnings estimates, compared with mid-20s price/earnings for H&M and Inditex. One reason, besides Uniqlo's own momentum, is its heavy weighting on the Nikkei 225 index, which also has risen briskly, says Macquarie analyst Toby Williams.

NOT EVERYONE ADMIRES Fast Retailing and Yanai, however. At Uniqlo, he rattled his own ranks by deciding in 2012 that his headquarters had too many Japanese faces. He began reassigning dozens of Japanese employees to the field, demanding that they learn English and making it the official language for all meetings. It was not a popular move among employees, or in Tokyo, where Japanese media have been critical of Uniqlo, calling it a "black company" because of high employee turnover in its stores. *The Glory and Disgrace of the Uniqlo Empire*, a 2010 book published in Japan, even suggests that the company allows "slave-like labor conditions" at its manufacturing plants. Uniqlo sued the publisher and lost; Yanai has since improved working conditions. "You don't get to where he is without toughness," says Andrew Rosen, co-founder of Theory, a clothing brand owned by Fast Retailing. "He is not a sweet man."

The company has tried to address the high turnover in stores by raising pay, but Yanai neither denies nor apologizes for being a demanding boss. By asking a lot of people lots of questions, he can discover talents and skills that might not otherwise develop.

Yanai boldly made his first assault on the West, opening stores in London in 2001 and in New Jersey in 2005. And boldly he failed, folding many of the United Kingdom stores and the U.S. stores within two years to stem the losses. Yanai blames a lack of marketing that could explain the brand and improperly trained managers. "No branding meant no sales," he says.

He spent no time licking his wounds, starting over with a Uniqlo in Manhattan's SoHo in 2006. "He takes bad news the same as good news—head on, and without drama," says Theory's Rosen. This time around, Uniqlo blasted the area with ads touting the company's clean, cheerful image and staffed the stores with personnel who understood his mission. Two more stores in Manhattan followed in 2011.

Fascinated with The Limited and its multibrand, multistore model, he went on a buying binge, purchasing footwear and women's apparel brands since 2004. Uniqlo's six sister brands make up 18% of sales, and Yanai boasts that each will grow into a multibillion-dollar brand.

Easy enough to say, but his competitors won't be standing still. Yanai acknowledges that point—but just barely. "Unless there is challenge," he says, "there is no meaning in life."

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