A Components Analysis of Competitive Advantage in Brand Strategy Management -A case study of Fast Retailing-

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Abstract: Brand research has been primarily focused on accounting issues such as estimating brand value (ex. Japan’s Ministry of Economy, Trade, and Industry, 2002) and value relevance since the 1980s. However, estimated brand values are not necessarily useful information when creating strategies for competitive advantage in brand management. In this paper, we do components analysis of the competitive advantage of brands, using a case study of Fast Retailing, a leading company in Japan’s apparel industry. We analyze each component of Fast Retailing’s strategies using the three aspects of competitive advantage as proposed by the METI model. In doing so, we will show that a components analysis of competitive advantage can provide useful information in brand strategy management.

Key Words: brand, competitive advantage, apparel industry, brand strategy, component factor of competitive advantage

1. Introduction
1.1 Background

As the percentage of intangible assets in total assets increases, company managements and investors are particularly focused on brands. Brands are images of value (Kito, 2012) for companies, products, services, or stores that are brought to consumers (or companies in the case of B2B).

In recent years, much research has been done focusing on estimating brand value and validating brand relevance in valuing assets. One well-known method for calculating brand value in Japan is the METI model (Ministry of Economy, Trade, and Industry, 2002). The METI model defines brand’s three competitive advantages: price advantage, customer stability, and propensity to expansion. Based on these three factors, the model estimates brand value using only metrics found on financial statements. In addition, the CB Valuator (Ito, 2002), as well as the Interbrand Model (Interbrand, 1984) are also well known.

However, the brand values derived from these models are presented as overall values of brands, and it is difficult to determine from these numbers exactly what the strength of brands is. In other words, brand values estimated using these models do not necessarily provide useful information for creating strategies for competitive advantage within brand management. Taking the example of M&A that has often been done as a function of brand strategy in recent years, the aim of companies conducting M&A has not been strengthening overall brand value through such activities as making overseas expansions easier or complementing a weak corporate brand. Rather, they have focused on the various components of brand competitive advantage. In other words, M&A with an eye towards strategies for competitive advantage within brand management.

Fast Retailing (FR) is one of many leading companies in Japan with strategies for competitive advantage within brand management. FR is a leading Japanese apparel company, with brands such as UNIQLO and GU. UNIQLO consists mostly of brands such as UNIQLO and GU. UNIQLO consists mostly of the METI model. In doing so, we will show that a components analysis of competitive advantage can provide useful information in brand strategy management.

The goal of FR is to be the “world’s number one apparel manufacturer and retailer”. They have certainly secured their position as the largest apparel company in Japan. Company sales in October 2013 exceeded one trillion yen. This is approximately twice that of the number two company in Japan, Shimamura. However, on a global basis, Inditex, the number one apparel company and holder of brands such as Zara, posted 2012 sales of approximately 1.8 trillion yen, and the number two apparel company, H&M, had sales of 1.6 trillion yen. GAP was third, with 1.4 trillion yen, indicating that it will be a long road to number one.

The world’s top group companies all have global brands, and operate on a global basis. In addition, they all have fast fashion brands with top designs.

However, there are some differences between FR and such top group companies. For example, H&M, which is much like FR, but has stronger profits from more brands and partnerships than FR. H&M has formed partnerships with such top global brands and designers as Karl Lagerfeld and Stella McCartney, and all have been successful. H&M is well known all over the world, but FR is well known only in some areas. In other words, H&M has much more name recognition and global reach than FR. This is why FR generated substantial buzz with the Jil Sander partnership, though not at the level of H&M.

H&M and FR differ, and not just in terms of name recognition and global reach. H&M assiduously focuses on a core customer demographic, “youth” who are fashion conscious and come to buy inexpensive, smartly designed apparel. Many of the brands and designers that partner with H&M do so with the
intent of increasing recognition for their own designs through H&M’s youthful clientele, and are using H&M to build up their own customer base down the road. Thus, the joint collections held each fall by H&M and other brands and designers are glamorous and very attractive. However, FR currently does not have a clientele desired by other brands and designers. Only when they attract fashion-conscious customers can they experience success on the level of H&M.

As above example, FR don’t have enough strength of brand which the top group apparel companies have. Hence, in order to become the number one apparel company in the world, FR should execute on much more brand strategies and make competitive advantages much more strong.

It is important to see how much overall brand value is because brand managers set an overall goal. But we abundantly think that brand managers should understand how strong their brand’s competitive advantages are and will become by their brand strategies. By focusing on not only overall brand value but also competitive advantages, they can make the decisions for brand strategies much easier.

1.2 Purpose

There are many companies like FR that implement strategies for competitive advantage within brand management. However, while many books have been written from the standpoint of brand consulting, few studies have analyzed strategy.

We strongly think that it’s important for brand managers to understand how strong their brand’s competitive advantages are and will become by their brand strategies. So, in focusing on a component factor analysis of competitive advantage using the METI model, the purpose of this paper is to show how a component factor analysis of competitive advantage using the METI model can create valuable information for brand strategy management by analyzing FR.

In section 1, we have showed our purpose. In section 2, we focus on FR and its brand strategies. Then in section 3, we show METI model, its components, competitive advantages and how FR did in those points. Finally, in section 4, we summarize our study and make a conclusion.

2. Fast Retailing (FR)

2.1 Basic Information

FR began as a company called Ogori Shoji, which was founded in 1949. In 1984, UNIQLO, an FR brand, opened its first store, and in 1991 Ogori Shoji changed its name to Fast Retailing. Later, UNIQLO’s fleece products garnered attention in 1998, and the brand quickly became famous in Japan. However, the company began to perform poorly in 2001, with sales slumping. Relief came when the company introduced a specialty retailer of private label apparel, or “SPA”, improving its capabilities through a partnership with Toray, and by successfully expanding overseas, particularly in Asia.

As of August 2013, approximately 82% of FR’s sales come from the UNIQLO brand. The company has many other brands such as Theory and GU, making it the top apparel company in Japan.

2.2 The Goal of FR

As has already been explained, FR has done much M&A and formed many partnerships as part of its strategy for competitive advantage in brand management. The goal of this for UNIQLO, the primary brand, primarily falls under the three following points.

2.2.1 Improving Design Characteristics

While FR is Japan’s top apparel company, UNIQLO, the core business of FR, defines clothing as everyday goods. However, when it comes to design, its importance was extraordinarily low in comparison to other apparel companies. In other words, FR had secured a strong position as a retailer of everyday goods, but it maintained low status as apparel retailer. The same status still applies to this day, particularly within Japan. In addition, FR is expanding within Asia, and in many Asian countries not all of its products are priced inexpensively. FR sells the same product for almost the same price in the world. In Japan, consumers may see the benefit of purchasing FR products, albeit with unimpressive design, that have high quality and are inexpensive. However, in Asian countries with low costs of living, consumers find few benefits to purchasing FR products that have high quality, but poor design and high prices.

Because of this, FR has been working on improving its design by creating a design R&D center in 2002, acquiring the US apparel brands Theory in 2004 and 2009, partnering with the internationally famous designer Jil Sander in 2009, and jointly producing products with apparel brands in various countries.

2.2.2 Strengthening Women’s Clothing

As can be seen in Figure 1, gender-specific sales were higher for men’s clothing than for women’s until 2009, after which the situation reversed itself, though the difference was small. Although this phenomenon can be acceptable in other industries, too-small sales in the traditionally large ladies apparel division are problems in the apparel industry. At the same time, this means that there is a great deal of potential in the ladies apparel division. In order to increase sales therein, FR not only made improvements to designs, they also aggressively made acquisitions, such as the French lingerie brand PRINCESSE TAM.TAM in February 2006, and the Japanese ladies apparel business of Cabin in April of the same year. All of this was done to strengthen their ladies apparel line.

2.2.3 Overseas Expansion

Since opening the first overseas store in London in 2001, FR has continued to expand its stores overseas.

In examining an overview of FR’s history, it may appear that, as it embarked on an overseas expansion in 2001, it intended to
increase the number of overseas stores primarily in Europe and the US due to its footholds there. However, all of these ended in failure. One of the goals behind the acquisition of the Theory brand in 2004 was supposedly a US expansion, but this aim would not have been achieved.

They next made inroads into Asia. In 2002 the company opened its first Asia store in Shanghai, following which there were no new stores for some time. However, the company began increasing stores in 2006, and as of August 2013 has a significant number, including 225 stores in China, and 1015 in Korea. In addition, as can be seen in Figure 2, sales have also been healthy. Even with growth in the 2011 fiscal year moving into the red due to the Great East Japan Earthquake, the company grew more than 60% the following year. Partnerships were formed with famous brands and designers, and the company embarked on a strategy of further overseas expansion by increasing FR’s name recognition among consumers worldwide. The partnership with Jil Sander, formed in 2009, was a particularly important event that made the FR brand more commonly known around the world.

Making many mergers and acquisitions is a brand strategy for FR. The particular focuses of this paper are the acquisitions of the Theory brand in 2004 and 2009 and the partnership with Jil Sander, due to the gaps in price ranges, design commonalities, and the differences in global expansion methods. The average price in cut and sew was about 10,000 yen for Theory and about 40,000 yen for Jil Sander, much higher than the approximately 2,000 yen for UNIQLO alone.

![Fig. 2 FR’s overseas and domestic sales (10^6 yen) (from FR’s financial statements)](image)

In addition, there are commonalities in design. Neither brands have gaudy logos or designs, opting instead for relatively simple and basic designs. For overseas expansions, Theory was primarily expanding in Japan and the US, and has some name recognition in those countries, but not elsewhere in the world. However, Jil Sander has been expanding across the globe, and has very high name recognition worldwide. Thus, in studying FR, it is extremely important to focus on M&As and partnerships with brands and designers that at first glance may appear to have different characteristics.

3. Components of Competitive Advantage

The formula used to calculate brand value (BV) in the METI model is shown in Equation (1), with PD (prestige driver) showing price advantage, which is one aspect of competitive advantage. LD (loyalty driver) expresses sales volume stability, while ED (expansion driver) expresses propensity to expand. The formula is comprised of these three elements along with discount rate r.

\[
BV = \frac{1}{r} \times PD \times LD \times ED
\]  

(1)

Brand value is shown by future cash flow, and is divided by a discount rate to convert it into present value. The discount rate in this case is the corporate discount rate, set to 2%, or the interest on long-term bonds.

In this study we will analyze FR’s brand strategy from the above three aspects of competitive advantage. It is believed that these are metrics useful for strategies governing competitive advantage in brand management. By conducting a time-series analysis, we shall identify the impact of FR’s brand strategy.

3.1 Price Advantage (PD)

3.1.1 The Definition of PD in the METI Model

While product quality and functionality may be completely identical, brand products may be sold at a higher price than non-brand products, as predicted by PD.

\[
PD = \frac{1}{S} \sum_{t=1}^{n} \left( \frac{S_t}{C_t} - \frac{S_{t-1}}{C_{t-1}} \right) \times \frac{A_t}{OE} \times C_0
\]  

(2)

\( t \): time period  
\( S_t \): corporate sales  
\( C_t \): cost of sales  
\( S_{t-1} \): reference sales  
\( C_{t-1} \): ref.cost of sales  
\( A_t \): advertising costs  
\( OE \): operating expenses

The reference company noted above is a company with the smallest Si/Ci value within the same industry. \( \left( \frac{S_t}{C_t} - \frac{S_{t-1}}{C_{t-1}} \right) \) calculates the most basic value added for cost advantage, and the brand attribution rate at \( A_t/OE \).

3.1.2 PD Components and the Results of a Time-Series Analysis in This Study

(1) Value added
FR sells products with a higher value added than its competitors because of its improved design. Competitors as defined in the METI model are those companies with the smallest \( S_t/C_t \) value in the same industry. With the respect to each purpose, we should change the reference company. In this study we want to compare FR with the apparel competitor. So we take into account the fact that FR is the number one apparel company in Japan, and set the competitor to Shimamura, the number two company in the industry in Japan. Accordingly, we use Equation (3) as a metric to measure the value added \( AV_t \) for FR in period t.

\[
AV_t = \frac{S_t}{C_t} - \frac{S_{t-1}}{C_{t-1}}
\]  

(3)

\( AV_t \): value added in time period t  
\( S_t \): FR sales in period t  
\( C_t \): FR cost of sales in period t
Figure 2 shows the changes to value added \( AV_t \) over time compared to Shimamura. The first acquisition of Theory in 2004 resulted in a drop in value added. However, even though the 2009 acquisition occurred after the "Lehman" shock financial crisis, the value added improved. This is because FR was able to increase value added to its products more than its competitor Shimamura. It is thought that the second acquisition of Theory, as well as the partnership with Jil Sander, resulted in higher value added.

However, value added dropped once again in 2011, and we can see that no improvements were made to value added in the domestic market.

(2) Brand Attribution Rate
Following the METI model, we considered using the ratio of advertising costs to operating expenses, but advertising costs are expenses incurred by the company for brands, and this study measures the component of competitive advantage enjoyed by a company due to its brands, thus it was decided not to use the aforementioned ratio. This study instead measures the level of sales relative to operating costs to determine the brand attribution rate \( AB \).

\[
AB_t = \frac{S_t}{S_t - OI_t}
\]

\( AB_t \): brand attribution rate for period \( t \)
\( OI_t \): operating income for period \( t \)
\( S_t \): sales for period \( t \)

Using information obtained from FR’s consolidated financial statements, we calculated brand attribution rates as shown in Figure 3. The brand attribution rate trends downward, though from 2007 on it was up slightly, and then decreases after 2010. Thus, it is unclear what impact the acquisition of Theory and the partnership with Jil Sander had on improvements to the brand attribution rate.

Let us examine changes to the brand attribution rate over time in both domestic and overseas markets. The brand attribution rate for the overseas business was trending downward until 2009, and then began increasing, as can be seen in Figure 4. This is not likely due to the effect of the Theory acquisition. As has already been stated, Theory is a brand that was expanded and recognized primarily in the US and Japan. It was not well-known in other parts of Asia where UNIQLO was expanding. Thus, the increase in brand attribution rate is thought to be attributable to the partnership with the world-famous designer Jil Sander, as many consumers that previously did not know the UNIQLO brand came to recognize it. The domestic brand attribution rate peaked around 2010, and then began to decline.

3.2 Sales Volume Stability (LD)

3.2.1 The Definition of LD in the METI Model
LD refers to "sales volume stability", which focuses on the stable presence of repeaters or highly loyal customers. By multiplying LD and PD, we can derive the stable and certain portions derived from the brand based on present and future cash flow.

\[
LD = \frac{\mu_c - \sigma_c}{\mu_c}
\]

\( \mu_c \): Average cost of sales over five periods
\( \sigma_c \): Cost of sales standard deviation

The stability of cost of sales is calculated in using the METI model. However, as METI has mentioned (2002), this calculation is meant to express the stability of sales, in other words the stability of sales volume, balanced with other competitive advantages in the METI model.
3.2.2 Components of LD in This Study and Results of a Time-Series Analysis
Sales volume stability is equivalent to sales stability. In addition, growth, not stability, is the goal in overseas markets, though stability is prioritized domestically. Accordingly, we use domestic sales stability and overseas sales stability as indicators to express the sales volume stability of FR, SS.

\[ SS_d = \frac{\mu_d - \sigma_d}{\mu_d} \]  
\[ SS_O = \frac{\mu_O - \sigma_O}{\mu_O} \]  

\( \mu_d \): Average domestic sale over five periods  
\( \sigma_d \): Standard deviation of domestic sales  
\( \mu_O \): Average overseas sale over five periods  
\( \sigma_O \): Standard deviation of overseas sales

Sales stability, which is a component of a sales volume stability, is a metric where a value is more stable the closer it gets to 1. Financial statement data is not available after 2005, so we conducted our analysis using data after 2006. Figure 5 shows changes to sales stability over time.

While FR is aggressively expanding overseas, new domestic expansion has become increasingly rare. Thus, domestic sales stability is gradually approaching "1" with the passage of time. In other words, FR is an extraordinarily mature company in Japan. Overseas, it is in the midst of an aggressive expansion, thus the overseas sales stability is not very high. However, there is no need to look at these values and assume they are unconditionally bad. Rather, one can view these numbers as good, because the company is growing. We will touch more on this when we cover the overseas expansion in a later analysis.

3.3 Propensity to Expand

3.3.1 The Definition of ED in the METI Model
ED is a measure of a brand’s propensity to expand. High-end brands have excellent name recognition, and should have brand expansion that allows them to enter similar industries, as well as different industries and overseas market outside their traditional industries and markets.

\[ ED = \frac{1}{2} \left( \frac{1}{4} \sum_{t=3}^{0} \frac{SO_t - SO_{t-1}}{SO_{t-1}} + \frac{1}{4} \sum_{t=3}^{0} \frac{SX_t - SX_{t-1}}{SX_{t-1}} \right) \]

\( SO_t \): Overseas sales in period t

The METI model calculates growth in overseas sales as the growth in overseas market share and non-core business segment growth as the growth in market share for areas outside the main business of the company.

3.3.2 Components of ED in this Study and Results of a Time-Series Analysis

(1) Increased Overseas Market Share
Overseas expansion is the greatest challenge facing FR. The many M&A activities and partnerships made them successful in expanding overseas. Thus, we use Equation (9) as a metric for measuring overseas expansion, \( OD_t \), for any FR period t.

\[ OD_t = \frac{S_O_t - S_O_{t-1}}{S_O_{t-1}} \]  

\( OD_t \): overseas sale in period t

\( S_O_t \): overseas sales in period t

Up until August 2005, FR’s overseas sales were less than 10% of total sales, thus there is no data specifically for overseas sales in the financial statements. Overseas sale numbers began to be separately disclosed in the period beginning August 2006, so our time-series analysis begins with the August 2007 period. Table 2 also shows domestic sale growth as a point of comparison.

The impact of the Great East Japan Earthquake 2011 caused domestic sale growth to head into negative territory, but overseas sale growth was positive, allowing the company to maintain extraordinarily high growth even above the growth in the number of stores. The percentage of sales coming from overseas grew markedly.

As can be seen in Figure 7, the number of stores gradually began to climb in 2006, and growth accelerated in 2009 and 2012. One reason for this may be the partnership with Jil Sander, which was designed to grow FR overseas. This partnership with a world-famous designer caused UNIQLO’s overseas name recognition to rise dramatically. In 2012, the company focused on replenishing their stores in a more concentrated fashion in China and Korea, where they had been successful to that point. This allowed them to experience steady sale growth.

As to the low results for sales stability overseas that turned up in the analysis in 4.2, in examining overseas sale growth, we can say that the results were obvious, and that FR’s does have a growth business overseas.

Table 1 Sale Growth Rate

| Year | Domestic (%) | Overseas (%) |
|------|-------------|--------------|
| 2007 | 7.9         | 94.6         |
| 2008 | 8.9         | 72.6         |
| 2009 | 16.4        | 28.8         |
| 2010 | 12.5        | 92.6         |
| 2011 | -0.9        | 28.7         |
| 2012 | 3.3         | 63.4         |
| 2013 | 10.2        | 64.0         |

(2) Expansion in non-core Businesses
The dividing line between core and non-core businesses in
Table 2 Growth Rate in November of Stores

|        | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------|------|------|------|------|------|------|------|
| Domestic | 3.9  | 1.5  | 1.4  | 4.9  | 4.3  | 0.2  | 0.9  |
| Overseas | 30.0 | 38.5 | 70.4 | 47.8 | 33.1 | 61.3 | 52.4 |

4. Conclusion

Below we outline the results for each component of competitive advantage and summarize our observations.

4.1 Price Advantage (PD)

(1) Value added

The partnership with Jil Sander was intended to improve FR’s designs and name recognition. It did in fact improve designs, and led to an increase in value added. However, value added began to decline in 2011, and we see that the company is struggling to improve it.

(2) Brand Attribution Rate

The partnership with Jil Sander did not have much impact domestically, though it did increase name recognition overseas, and elevated the brand attribution rate. By partnering with world-famous brands and designers, we see that the company was able to increase name recognition and the brand attribution rate overseas.

4.2 Sales Volume Stability (LD)

FR is experiencing extraordinarily stability domestically, and could be said to be stable. However, it is has little stability overseas. This is due to the fact that the company has been successful in expanding overseas, and is seeing increased sales outside of Japan. In other words, as FR expands UNIQLO, the domestic business is stable and mature, while the overseas business is in the process of high growth.

4.3 Propensity to Expand (ED)

(1) Expanding Overseas Market Share

The acquisition of Theory was expected to provide a foundation for expansion in the US, but ended up not providing the expected results. However, the partnership with Jil Sander with the aim of improving design and name recognition did achieve the goals overseas, aiding the overseas expansion.

(2) Increased Share in Non-Core Businesses

FR is growing across all businesses, but the ladies apparel business has enough room to grow, given the fact that the proportion of sales from that line was particularly low and it has seen striking growth of late.

4.4 Summary

METI model is proposed for valuing brand, an intangible asset, as an asset. However, the brand value obtained from METI...
model is presented as overall of brands. So it is difficult to directly use these values in order to create strategies for competitive advantages. In this paper, we focus on three competitive advantages METI model suggests and we propose how to utilize competitive advantage of brand as the valuable information for brand strategy management.

In order to make brand value utilizable for brand strategy, we use the three aspects of competitive advantage proposed by the METI model, and analyze each component of strategies of FR, which is one of many leading companies in Japan with strategies for competitive advantage within brand management and a leading Japanese apparel company with UNIQLO.

From this study, FR will continue to be a growth company overall, and will require a brand management policy for the future. Becoming the world’s largest apparel manufacturing and retailing group will absolutely require improved designs and a fashion-conscious clientele. In doing so, the company will certainly increase value added. In addition, the company needs to aggressively not only expand the UNIQLO brand overseas, but must also have strong global brands such as GU and Theory. By analyzing FR’s brand strategy with the three aspects of competitive advantage MEIT model proposes, we can recognize how successfully FR’s brand strategy perform and provide what FR should do for the future. From this analysis, we strongly believe that focusing on aspects of three competitive advantages make us easy to understand what the company should do for brand strategy management. Hereafter, we should analyze other companies by using these competitive advantages.

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