

**Final Project - Uniqlo**

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Dear Tadashi Yanai, CEO of Uniqlo:

We would like to propose a sustainability strategy for the brand in order to address the climate issues that the world is facing. As the global brand that it is, Uniqlo needs to keep up with current trends and behaviors, and taking care of the planet we live in is our main priority. Please find a complete report on our proposal and how the brand can implement it.

### **A. Executive Summary**

Uniqlo is a Japanese brand that was born in 1984 with a SPA (Specialty store retailer of private label apparel) model that controls the entire process from product planning, production, distribution and marketing. The Japanese brand is now owned by Japanese multinational retail holding company Fast Retailing. As it is stated in the Fast Retailing website, Uniqlo is able to sell good quality clothing at a low price "through direct negotiations with and bulk purchases from material manufacturers globally" (Fast Retailing, 2011), meaning that they have control over their manufacturing process, and more importantly, know everything about their manufacturers.

By 2017, in The Power of Clothing report by Uniqlo it was stated that they worked with 70 partner factories across the world, specially located in China, Bangladesh, Vietnam and Indonesia. But in a more recent study from 2022, and with the intention of being more transparent, Fast Retailing has stated that they work with over 755 factories all over the world, for all of their brands. It is not clear how many of these factories work with Uniqlo, but it was revealed by the enhancing traceability from Fast Retailing that the Japanese brand works with approximately "343 workshops in 11 countries." (BS Web Team, 2023). Although

Fast Retailing is trying to be more transparent, the truth about the factories they work with is not very clear.

In an effort to be more transparent and conscious, Uniqlo needs to have a stronger commitment with its policies and their initiatives. Even though they currently have recycling and upcycling programs, it is not very clear how they function and their results. They need to create stronger, transparent and more visible recycling and upcycling campaigns and initiatives by locating collection centers in each store and taking them back to their factories to create new pieces using used and unused clothes.

On the other hand, Uniqlo has been trying to improve their commitment with the environment, which has led to an improvement on its placement in the Good on You rating with their upcycling initiative. But as a large company they still have a lot of work to be done: "A real disappointment here is that there is still no evidence Uniqlo ensures payment of a living wage, which puts a damper on the fact that the brand disclosed adequate policies to protect suppliers and workers from the impacts of COVID-19." (Good on You, n.d). There is still a lot of room for improvement and as a global company, they have a bigger responsibility for their environmental impact. We recommend to partner up with Good on You in order to keep improving their score and to learn more sustainable practices,

Besides working with Good on You, Uniqlo should partner up with the Clean Clothes Campaign alliance in order to ensure a more transparent process throughout their whole supply chain. This could also help the brand improve their Good on You rating, which is based on public data. Right now, the brand mentions they have a lot of environmental initiatives, but their data is not totally public and they lack transparency in terms of their supply chain and how they really implement all of their sustainable initiatives. The brand should start to be more transparent with their practices and partners as well.

## **B. Current State of Brand**

Uniqlo is headquartered in Tokyo, Japan, it is Fast Retailing's flagship brand, and is known worldwide for its affordable casual fashion apparel. Uniqlo is responsible for global operations using a centralized structure and a private label apparel specialty retailer (SPA) business model. The brand has a relatively flat internal organizational structure compared to typical Japanese companies. This approach encourages employees to voice their opinions and creates an environment of innovation and openness. Tadashi Yanai serves as both CEO and Chairman of the Board of Directors, leading a board of five outside directors, three statutory auditors and two full-time internal auditors. Uniqlo's operational management team, which operates primarily in Tokyo, typically serves as country-level CEOs, working closely with the headquarters to manage matters in different regions.

Uniqlo's business model integrates the entire apparel production process from planning and design to distribution and retail. Working with the world's leading fabric technology companies, Uniqlo has expanded its global market share by continuously developing new fabrics and applying simple designs to natural materials. Uniqlo LifeWear is at the heart of Uniqlo's product offering, featuring high-quality, innovative clothing that is universally designed and comfortable to wear. Through digital platforms, Uniqlo interacts directly with its customers, quickly translating their preferences into tangible products. The company employs over 30,000 people globally and operates numerous stores around the world, primarily in high-traffic urban areas and shopping centers. While Uniqlo's growth initially originated in Japan, the focus of expansion has now extended to Greater China and Southeast Asia.

In addition, over the past three years, Uniqlo has been involved in various philanthropic activities and environmental leadership efforts, with organizations such as the United Nations

High Commissioner for Refugees (UNHCR) and the Commission on Sustainable Development (CSD). As well as earning the highest possible score from the CDP (Carbon Disclosure Project) for transparency and leadership on climate change, demonstrating its commitment to going beyond its business efforts. For example, at the end of 2023 Uniqlo launched a holiday collection for its “PEACE FOR ALL” a charity t-shirt program in which designers such as renowned Swiss architects Herzog & de Meuron and Japanese pop culture icon Ultraman designed special t-shirts. All of the profits were donated to charity groups like the UN Refugee Agency, Save the Children and Plan International Inc (Group News, 2023).

On the financial front, Uniqlo achieved significant revenue of 890.4 billion yen (5,718,816,600.00 usd approx) and profit of 117.8 billion yen (756,607,489.20 usd approx) growth in FY2023, thanks to strong sales in various markets, particularly in North America (UNIQLO Business Strategy, 2024). Noteworthy achievements include surging revenues and profit growth in both domestic and international markets. In the fashion industry, Uniqlo faces stiff competition from retailers like Zara, H&M, Gap and Primark, as well as e-commerce giants like Amazon and ASOS. These competitors have established themselves as formidable rivals to Uniqlo due to their diverse product lines, strong brand recognition, and global market penetration.

Going forward, Uniqlo aims to differentiate itself through innovation, emphasizing its groundbreaking fabric technologies and shifting its focus from price to quality. By utilizing digital technology, Uniqlo seeks to provide customers with a seamless omni-channel experience. In addition, the company is preparing for leadership succession to address the changing technology and business environment.

### C. Sustainability Assessment

Uniqlo is actively engaged in reducing its environmental impact through various initiatives, including the use of lower-impact materials like recycled materials, and efforts to reduce water consumption in its supply chain. Notably, recycled materials, such as recycled polyester, accounted for 8.5% of all products planned for production in 2023, with recycled polyester making up 30% of all polyester used. The company aims to increase this to 50% by fiscal year 2030 (Group News, 2023). However, there's a lack of public disclosure regarding the actual proportion of environmentally friendly materials used and the methods employed to achieve these targets.

Regarding workers' rights, Uniqlo reports a 44.7% female workforce by 2023 but lacks third-party verification (Yanai, 2023). While implementing a social audit program endorsed by the Fair Labor Association and disclosing policies to protect workers during the COVID-19 pandemic, Uniqlo scored only 41-50% on the Fashion Transparency Index, indicating room for improvement in ensuring fair wages and promoting diversity and inclusion within its supply chain. In terms of animal welfare, Uniqlo has policies aligned with animal welfare standards and traces some animal-origin materials from the initial production stage. However, concerns remain regarding the use of leather, exotic animal hair, and silk, with insufficient evidence regarding wool sourcing from non-mulesed sheep. While Uniqlo emphasizes biodiversity assessments, details and measures are not publicly disclosed (Yanai, 2023). Overall, based on publicly available information, Uniqlo's sustainability efforts are rated as "It's a start" - "C," indicating progress but space for improvement (Uniqlo).

#### *In marketing*

Brands		Transparency	Emissions	Water	+	Labor	Materials	Waste
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				Chemicals	Practices		
COS (better)		B	C	B	D	C	B
Uniqlo		C	C	C	C	C	B
Zara (worse)		D	C	C	D	D	D

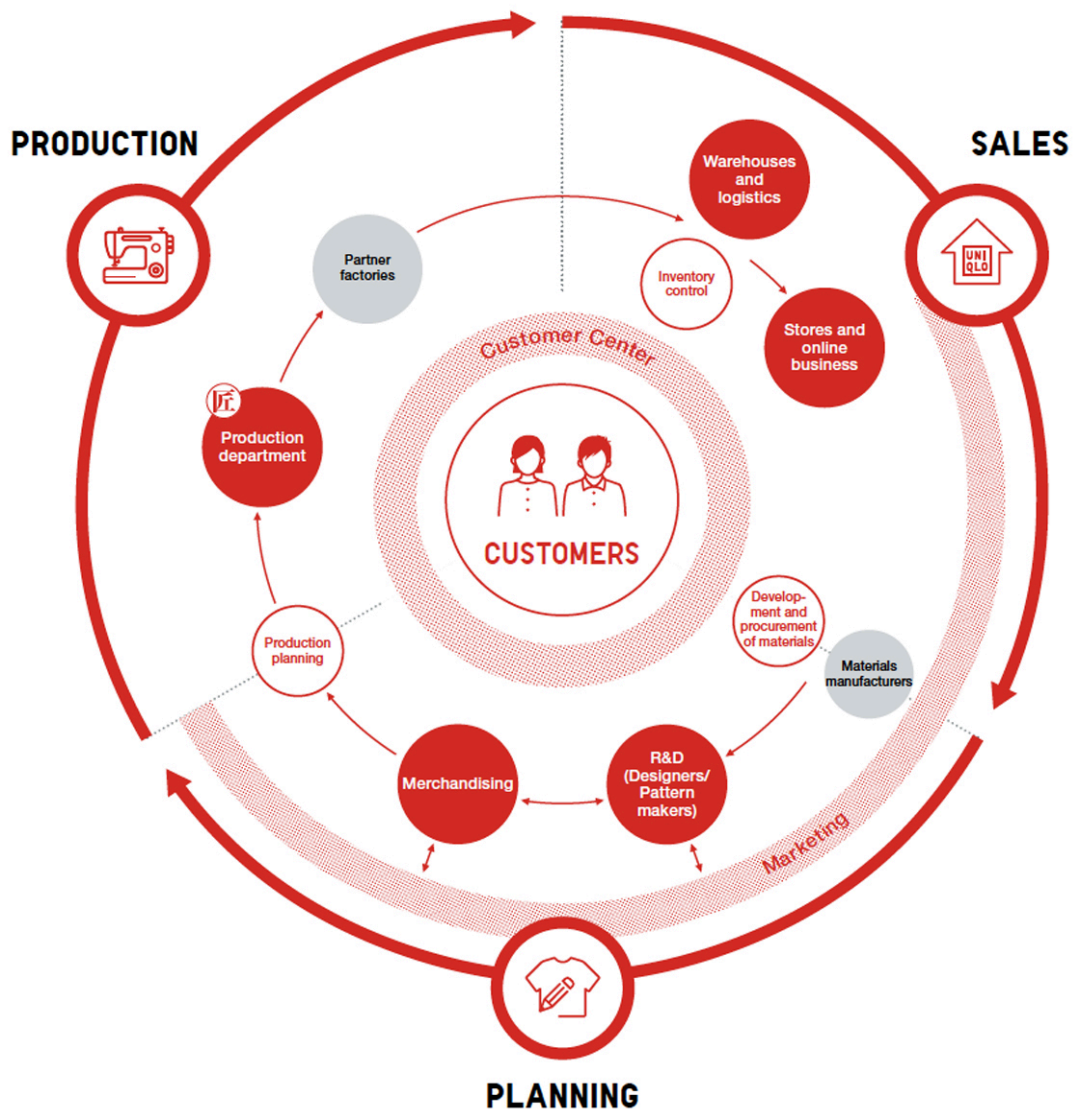
#### Reason:

With current information, COS surpasses Uniqlo in sustainable recycling, scoring 71-80% in the 2023 Fashion Transparency Index, compared to Uniqlo's lower transparency score. COS utilizes recycled materials that are eco-friendly, and has implemented a biodiversity conservation policy as part of its supply chain. While COS has eliminated some hazardous chemicals from its emissions process, it has yet to commit to removing all hazardous chemicals from its manufacturing process. The company has set a science-based goal to reduce greenhouse gas emissions but lacks evidence of progress toward meeting this goal. None of the companies in COS's supply chain is certified to uphold important labor standards, resulting in a 'D' rating for labor practices.

Zara, another competitor of Uniqlo, trails behind in sustainable recycling with a fashion transparency score of 31-40%, lower than Uniqlo's score. Zara predominantly utilizes non-environmentally friendly materials and lacks evidence of efforts to minimize textile waste. Most of Zara's production occurs in countries with medium to high risk of labor abuse, with no evidence of ensuring fair wages in its supply chain.



## D. Supply Chain Map



First, Uniqlo has its own Research and Development (R&D) center to analyze global fashion trends, explore new materials, and incorporate customer feedback into the product development process. A year before a product launch, a concept meeting is held with representatives from each team to finalize the design concept for each season. Designers then refine samples, continually adjusting colors and silhouettes to meet standards.

In addition, its marketing team plays a vital role in product planning and production, deciding on the range and number of products to be produced throughout the year. By working closely

with R&D, production and other departments, marketers determine the designs and materials for each season's products. They also collaborate on strategic product launches and monitor sales data to adjust production orders as needed. Uniqlo often produces products in large batches, and the merchandising department closely monitors sales to optimize production levels. Sourcing of materials is negotiated directly with global producers to ensure high volume deliveries at competitive prices. Uniqlo works with partners such as Kaihara and Toray Industries to develop specialized materials such as denim and innovative fibers for the HEATTECH line.

For the production part, Uniqlo does not own its factories, but maintains good relationships with its partner factories and conducts regular visits to ensure quality control and to resolve any issues. According to the report, its core list of sewing factories contains 343 workshops in 11 countries. Production is mainly located in countries such as China, Bangladesh, Vietnam and Indonesia. Of these, China still accounts for more than half of the total, with 227 factories, even though the company is trying to reduce its reliance on Chinese factories as labor costs in the country rise. Vietnam is second in importance to Uniqlo with 54 factories, followed by Bangladesh with 33 factories. Besides these, there are 13 factories in Indonesia and 16 factories in India and Japan (BS Web Team, 2023).

Products are then sent to Uniqlo stores or warehouses after being manufactured. Inventory management is critical to ensure that stores have sufficient stock while minimizing excess inventory. The inventory control team monitors sales and stock levels and adjusts orders accordingly. At the end of each season, coordinated promotions help to clear out remaining stock. Uniqlo's products are available both online and offline, with a large number of retail outlets worldwide. As of August 2023, Uniqlo Japan operates 800 stores, including franchises, while Uniqlo International operates 1,634 stores worldwide.

## Recycle chain - RE.UNIQLO



In addition to the usual production chain, in 2020, Uniqlo re-launched its Whole Product Recycling Program, which had been in place since 2006, under the new name "RE.UNIQLO". The brand collects used clothing that customers no longer want and then sorts and recycles it into new products and materials. At the same time, Fast Retailing began working with external partners. Together with the United Nations Refugee Agency (UNHCR), non-governmental organizations (NGOs) and non-profit organizations (NPO), it collects second-hand Uniqlo clothing at its stores and provides it to people in need around the world in the form of emergency clothing aid for refugee camps and disaster areas. Additionally, in August 2021, the brand piloted a Second Life Workshop in a Uniqlo store in Germany, offering clothing repair services in partnership with the NGO Berliner Stadtmission. However, there is no data to prove its effectiveness.

### E. Problem Identification

- As of 2011 it was stated that each year the brand "produces approximately 600 million articles of clothing and sells them to nearly 200 million customers...". With increasing

demand and more stores worldwide, this number should be higher by 2024. As it is not stated on their website, one of the biggest questions is what do they do with the clothes they do not sell? Are they part of their recycling program?

- The production process is not transparent enough, even though the brand discloses the names and addresses of the factories they work with it is not clear how they control all of their vendors and partners. If they work with over 343 partner factories, how do they control each step of the way? It is unclear how they keep track of how their employees are treated, whether they are paid a fair wage, and what materials they use.

- They are committed to only use sustainable cotton by 2025, but are they really making it? "By 2025, all of our cotton will be procured from sustainable sources." (LifeWear, 2020). They still use a lot of man-made fabrics like polyester. They could commit to only using raw or organic materials or recycled fabrics.

- Their recycling strategy is not enough. It appears the RE.UNIQLO, their recycling program only works with Uniqlo items. They should be more transparent in their handling of the clothing they receive and publicize the data and results, and develop more measures around this.

- They lack transparency in their initiatives, production and manufacturing processes. This may look like greenwashing when not explained in the right way.

- Although Uniqlo has released a number of environmental campaigns, it lacks certification from environmental organizations.

## **F. Recommendation for (further) Sustainability Initiatives**

Taking into consideration the problems identified before, we would recommend Uniqlo to join forces with Clean Clothes Campaign, an organization focused on solving some of

fashion's biggest problems like unclear supply chains, waste and pollution, Weak, voluntary efforts by brands, climate change, and some others. With this alliance, Uniqlo's work could be monitored to ensure their "sustainability" program and other goals and initiatives are real and achieved.

The brand has also made some improvements in the Good on You rating, so we would also advise to partner up with the organization in order to get a "good" or "great" rating and solidify their commitment with the environment. Good on You only works with brands that have a good or great rating, so Uniqlo would need to be transparent about their whole process in order to know where they can improve. Also, Good on You only works with public data "We only use publicly-available information. It's fundamental to consumer rights that brands fully, accurately, and consistently report on their impacts." (Good on You, N.D), this means that Uniqlo would need to start being more transparent about their manufacturing, production and sourcing processes.

Right now the brand has some sustainable initiatives, but we believe that even though that is a great start they could do even more. They mention different programs like RE.UNIQLO, a recycle initiative that recycles second-hand Uniqlo clothes. This initiative lacks transparency about the process and, that is why it may look like "greenwashing" instead of a real strategy. The brand needs to go a step further and create a whole collection or line using only recycled garments and they should be able to recycle clothes from other brands, not just Uniqlo. Also, since it is not clear how the recycling process works, it would be a great start if they invest in recycling plants or they could even partner up with an existing one like Renewcell. This Swedish-based recycling company in which they transform used or disposed fabrics to create Circulose (Renewcell, N.D).

Uniqlo is well known for its use of technology, this could be a great advantage to create new fabrics that are easy to dispose, recycle or even disintegrate. If they use the right natural fabrics, such as bamboo, linen, hemp or other materials like apple, mushrooms, pineapple or SeaCell (it is a fiber made from a blend of cellulose from sustainably harvested seaweed and lyocell). They could even stop using fabrics that contain plastic and they could start to develop long-lasting pieces made from techy materials that do not have a heavy environmental impact, such as Tencel Lyocell fibers. Thi is a type of rayon made from sustainably sourced wood pulp, typically from eucalyptus trees. The production process is highly efficient and uses a closed-loop system, minimizing waste and chemical usage. They could also start to replace polyester and other plastic-based fabrics with organic alternatives like cactus, corn, bamboo or hemp.

Lastly, Uniqlo has joined the Better Cotton Initiative, in which they are committing to only using organic cotton by 2025. The brand should also join forces with other organizations to only use natural fibers that do not harm the environment. Also, it is uncertain what strong strategies they are implementing to achieve their goal and what they plan to do with the other materials they use. Taking into consideration that 2025 is just around the corner, have they stopped using non-organic cotton? Since Uniqlo claims to have full control of their supply chain, they should only use organic plant based materials that are harvested without pesticides and don't use a lot of water, stop using polyester (they use a lot), and start repurposing or recycling used fabrics and garments. Uniqlo could choose to involve initiatives such as textile recycling or upcycling, ensuring a closed-loop system that minimizes waste and maximizes resource efficiency.

Uniqlo could significantly bolster its sustainability efforts by investing in cutting-edge technologies, such as advanced recycling plants in the US or Japan. These facilities have the

capability to transform unused fabrics into new materials suitable for creating fresh clothing items. By incorporating such technologies into its operations, Uniqlo would not only reduce its reliance on virgin materials but also minimize waste generation, contributing to a more circular fashion industry.

## **G. Conclusion**

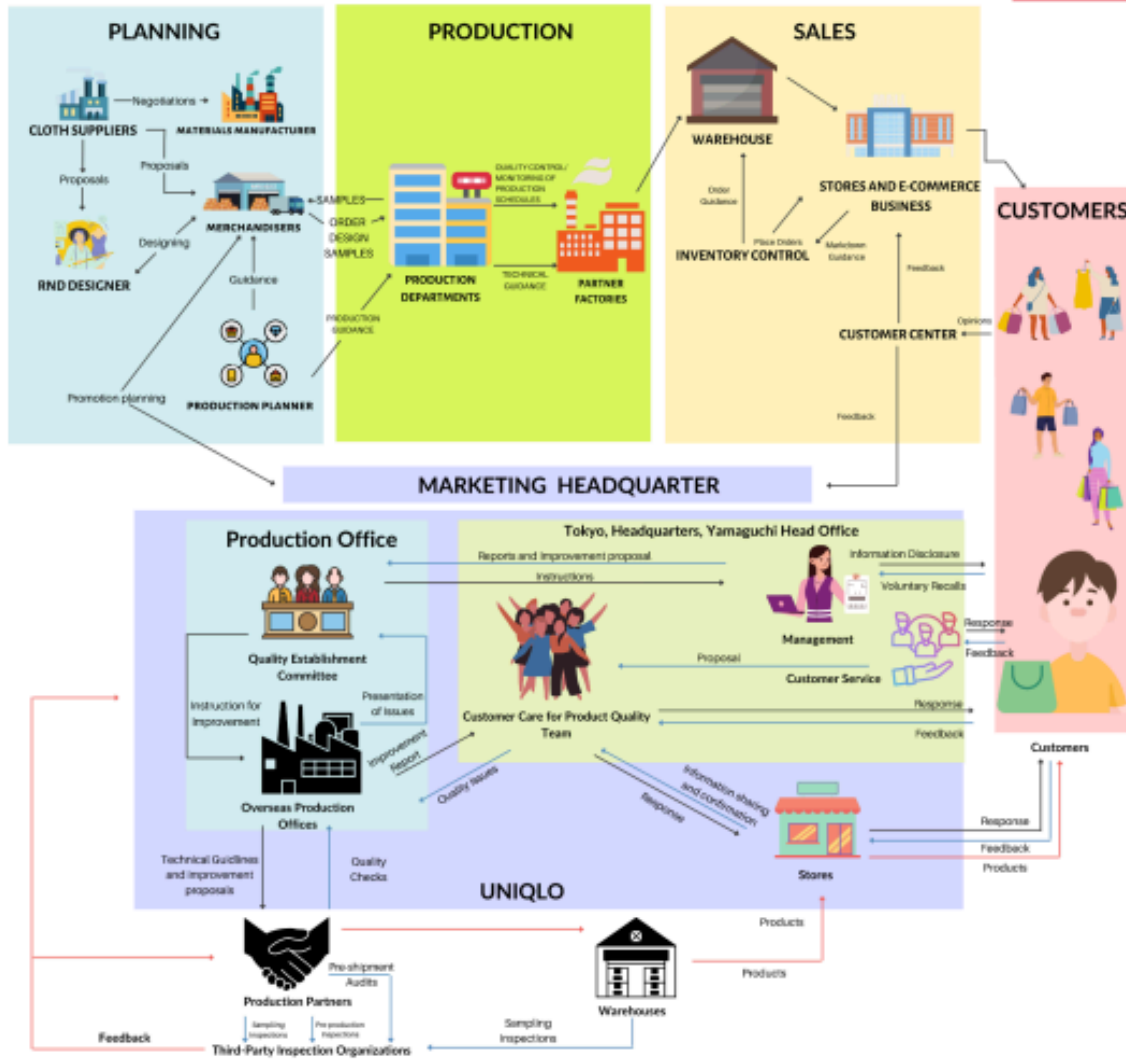
In conclusion, while Uniqlo has made progress in sustainability, there's ample room for improvement. To strengthen its commitment, we recommend partnering with organizations like Clean Clothes Campaign and Good on You for guidance and transparency. Moreover, Uniqlo should enhance sustainability initiatives, including a dedicated collection from recycled garments and investment in recycling infrastructure. Leveraging technology, Uniqlo can develop easily recyclable fabrics, and invest in recycling plants for fabric repurposing.

Accelerating commitments, such as organic cotton use by 2025, and exploring partnerships for natural fibers are crucial. Uniqlo should phase out polyester, control partner fabrics, and prioritize raw materials. Embracing these changes could elevate Uniqlo's sustainability rating to an A, reinforcing its brand reputation and contributing to a sustainable fashion industry.

Looking ahead, by aligning with circularity principles, Uniqlo can pave the way for a greener future. As custodians of our only planet, large corporations like Uniqlo play a pivotal role in environmental preservation. In the future, we envision Uniqlo as a trailblazer in sustainability, setting industry standards and inspiring positive change. With continued dedication, Uniqlo can contribute to a more sustainable and prosperous world for generations to come.

Appendix

# UNIQLO SUPPLY CHAIN MAP





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