

## Japanese Apparel Industry: A Recent Survey of Wholesalers and Manufacturers

Takuya Urakami<sup>†</sup>, Kazutaka Komiya<sup>‡</sup>, Woonho Kim<sup>\*\*</sup> and Junji Inoguchi<sup>\*\*\*</sup>

Faculty of Business Administration, Kinki University, Japan

Dept. of Economics, Kagawa University, Japan<sup>†</sup>

College of Commerce, Nihon University, Japan<sup>\*\*</sup>

Faculty of International Studies, Hiroshima City University, Japan<sup>\*\*\*</sup>

(Received June 12, 2010 : Accepted October 31, 2010)

### Abstract

*The business strategies of small to medium enterprises (SMEs), especially in relation to the Japanese apparel wholesaler and apparel manufacture markets, have been undertaken by Urakami and his colleagues (Komiya et al., 2009; Urakami et al., 2009; Urakami & Wu 2010). The aim now is to investigate the changing business climate of apparel products in Asia, now that China seems to a major player of apparel products in the Asian region. The production of apparel products from China has resulted in a major shift of the business environment. Such products have now invaded import markets throughout the world economies. Such a drastic change in the business environment impacts the structure of distribution channels in competing economies, affecting both wholesalers and manufactures. This research focuses on the effects this has had on the Japanese distribution channels. The findings derived from our previous research are highlighted, together with several planned hypotheses that require testing, in order to build a clearer understanding of apparel manufacturing in the Asian region.*

*Key words : apparel wholesalers and manufactures, private brand and specialty store strategy, small to medium enterprises.*

### 1. Introduction

A large number of apparel products emanating from China have invaded the world import markets. Motohashi (2006) investigated the impact this has had on Japanese firms. Their find-

ings conclude that the import penetration ratios of both the textile and the apparel industry are almost 50%, whereas, that of some industries is less than 40% (non ferocious metal, electrical computer, electronics machine, and precision machine), and that of all other industries is less than 20% (steel, metal product, transportation ma-

---

The authors would like to thank Hidefumi Kawai (Akashi-Hifuku-Kogyo Co. Ltd) not only for his willingness to share his industry expertise, but also for his willingness to share his personal networking in order to accomplish our series of researches. We can absolutely say that we could not complete our researches without his sincere effort. This research was partially supported by the Ministry of Education, Science, Sports and Culture, Grant-in-Aid for Scientific Research (C).

<sup>†</sup> Corresponding author E-mail : urakami@bus.kindai.ac.jp

chine etc.). In addition, Urakami & Wu (2010) calculated the import penetration ratio of apparel products to be 89.0% in terms of quantity and 70.8% in terms of price. The importation of a large number of apparel products from China is evidence that the Japanese textile and apparel manufacturers have lost their competitive powers, and the resulting change of the import share of textile and apparel products affects the distribution channels in Japan. We surmise that this change must be affecting the distribution channels in neighboring countries, such as Korea and Taiwan.

The Japanese wholesaler distribution system is complex because of its multilayered structure. During the 'boom' era in Japan during the 1980s, the multilayered structure performed an important role in the transactions of commodities, where there were numerous small-scale retail stores and relatively large-scale manufacturers. However, such a complex structure is coming under pressure from Chinese apparel manufacturers. Maruyama (2004), found that in spite of the penetration of IT technologies and the logistical system reforms of large retailers, the usage ratio of wholesalers (sales of retail direct trade wholesalers + sales of source wholesalers / total retail sales), began to decline sharply during the 1990s, a trend that has continued to accelerate in recent years with by bypassing wholesalers. In order to survive in the competitive market, Japanese wholesalers are struggling to expand their scale of operations and secure business with large-scale retailers (Kim, 2004).

Thus, in order to respond to the new market conditions, Japanese apparel wholesalers and manufacturers have employed two strategies in order to survive in the market - a private brand strategy and a specialty store strategy. A private brand strategy serves to form a unique competitive advantage for a retailer, thereby differentiating it from the brands created by rival manufactures. A specialty store strategy deals in a specific product line, deriving the majority of income from that product line.

Empirical studies, as well as case studies relating to the business strategies adopted by apparel wholesalers and manufacturers in Japan, Korea

and Taiwan, have been conducted previously, (Komiya et al., 2009; Urakami et al., 2009; Urakami & Wu, 2010). The aims here are to elaborate on those findings and suggest further hypotheses for a future empirical study that will provide a clearer picture of apparel wholesalers and manufacturers in Japan, Korea and Taiwan.

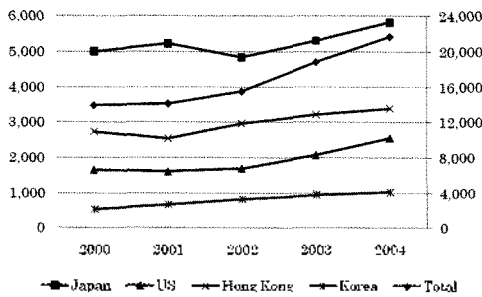
The paper is structured as follows: Firstly, an overview of the historical background of the Japanese apparel industry, as well as the effective business model employed by Japanese apparel companies, is provided. This is followed by a summary of the previous research in this area, conducted by this author, which has addressed both the private brand and specialty store strategies. Finally, a future study to address the Korean apparel market is suggested in order to build a clearer picture by proposing several hypotheses for future empirical studies.

## II. Historical Background of Japanese Apparel Industry

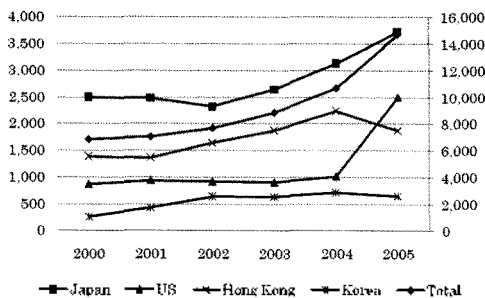
Apparel products imported from China have invaded the economies in many parts of the world. <Fig. 1> and <Fig. 2> shows the imports of apparel products (fabrics and knitted wears) from China over the past five years.

It is evident that the import of apparel products from China has steadily increased year-on-year. Japan heads the group, having the largest share of imported apparel products from China. From this, it is clear to surmise that apparel manufacturers in Japan are encountering difficult times because of the large number of imports. However, such difficulties are not unique to Japan, but are apparent in other parts of the world, especially in developed East Asian economies of Korea and Taiwan. <Fig. 3> highlights the case in point, where the rate of *domestic* production over a seven-year period is compared between Korea, Taiwan and Japan. It shows a negative growth for both Taiwan and Japan over this period, but since 2004, there has been an increasing positive trend for the situation in Korea.

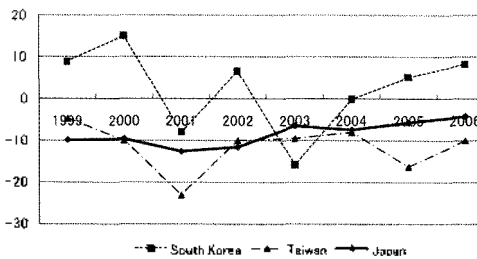
One can assume that the apparel manufacturers



<Fig. 1> Imports of Fabrics (Coat, Jacket, Shirts, etc.) from China (Million US dollars). Source: Japan External Trade Organization (JETRO)



<Fig. 2> Imports of Knitted Wears (T-Shirts, Sweater, etc.) from China (Million US dollars). Source: Japan External Trade Organization (JETRO)



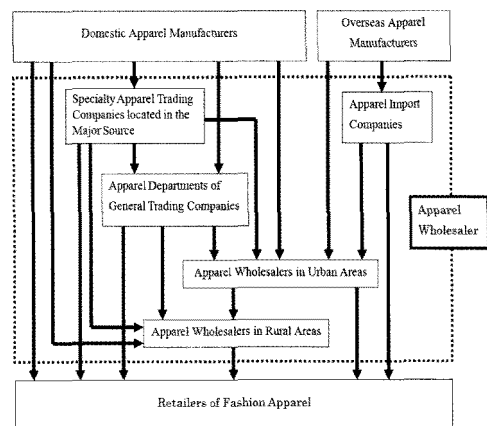
<Fig. 3> The Rate of Domestic Production in South Korea, Taiwan, and Japan. Source: Korea and Taiwan: Seni-HandBook (Hand Book of Textiles); Japan: Kogyo Tokci (The Census of Industry)

in these developed economies have all faced the same drastic changes in their business environments, however, the recent positive trend experienced in Korea implies that the business charac-

teristics, such as retail market structure, are different from those in Taiwan and Japan. This point will be discussed in detail at a later stage.

In view of the increasing pressures faced by the Japanese apparel market, the wholesale distribution system remains complex with its multi-layered, long, convoluted marketing channels, which include secondary and even tertiary wholesalers (Flath & Nariu, 2008; Ito & Maruyama, 1991; Martin et al., 1998; Nariu & Flath, 1993; Nishimura, 1993). <Fig. 4> shows the flow of apparel trading for the Japanese market, with increasing numbers of wholesalers who engage in business with other wholesalers, resulting in a multilayered structure.

The reasons for this structure are threefold: (1) numerous small-scale retail stores lead to complicated transactions between these stores and manufacturers. Thus, wholesalers are able to reduce transaction costs by combining transactions between retail stores; (2) retail companies have adopted distribution strategies that focuses on the management of the retail stores, relying on inventory management and logistical functions of wholesalers; (3) manufacturers have utilized wholesalers to distribute their products to numerous small-scale retail stores (Maruyama, 2004). In contrast, overseas apparel manufacturers



<Fig. 4> Apparel Trading Flow in Japan. Source: Japan Fashion Education Promotion Association (1995) and Urakami et al. (2009)

engage less with an array of wholesalers, resulting in little or no multilayering.

In recent years, the multilayered structure of Japanese wholesalers has pared down. This reasons for this demise may due to several factors. Firstly, as already indicated, a greater import of apparel products from China has led to wholesalers being unable to deal direct with Chinese manufacturers, which has resulted in their demise. Secondly, retailers in Japan have modified their distribution strategies by employing new information technology (IT), thereby reducing the need for wholesalers. Finally, manufacturers have modified their distribution strategies, engaging directly with large-scale retailers, thereby bypassing wholesalers.

### III. An Effective Business Model: SPA

In 1986, Donald Fisher, ex-CEO of The Gap Inc, coined the phrase, "Specialty store retailer of Private label Apparel" (SPA). It was to distinguish those apparel products, whose activities are fully integrated, from manufacturing through to sales - material procurement design, product development, production, distribution, inventory management, and finally sales.

Within the apparel industry, "to become a SPA" is considered an important strategy for manufacturers, wholesalers, and retailers (Yano Research Institute Ltd. (Ed.), 2009). Around the year 2000, the SPA business model strategy has accelerated as large-scale retailers, such as shopping centers, started expanding in Japan. A vertically integrated SPA system deals with the coordination of marketing, sales, and purchasing activities of the retailer as well as the design, production, and distribution activities of the manufacturer within the company.

Yano Research Institute Ltd. (Ed.) (2009) identified two types of SPAs in Japan. The first type involves wholesalers who have specialty stores, becoming an SPA company (hereafter, referred to as W-SPA). W-SPAs such as WORLD, FIVE-FOX, SANEI INTERNATIONAL, ONWARD, SANYO SHOKAI, ITOKIN, TOKYO STYLE,

fall into this category. The other type of SPAs are where retailers have established their own sewing plants to become an SPA company (hereafter, R-SPA). Companies such as FIRST RETAILING (UNICLO), SHIMAMURA, AOYAMA, AOKI, ONLY, UNITED ALOWS, BEAMS, SHIPS fall into this category. In 2007, the estimated scale of the SPA market totaled about 3.5 trillion JPY (1.4 trillion JPY for R-SPA; 2.1 trillion JPY for W-SPA), whereas that of the total apparel retail market was about 7.7 trillion JPY. This indicates that the sales of apparels from SPA companies accounts for approximately 45% of total sales of apparel retail market.

For W-SPAs and R-SPAs, the Yano Research Institute Ltd., has calculated the sales of apparel items and appointed a ratio to identify the two types of SPAs in Japan. For R-SPAs, a PB ratio identifies the private brand sales per total sales in Japan, and for W-SPAs, a SS ratio defines the sales from specialty store with the sales from all distribution channels in Japan.

In 2007, the estimated PB ratio was 51.4% and the estimated SS ratio was 39.7%. This figure is suggested by Yano to increase over the coming years as the strategies of a private brand or a specialty store become important because of pressures from China.

### IV. Empirical Analysis of the Japanese Apparel Wholesalers

Two empirical studies for the business strategies undertaken by the Japanese apparel wholesalers have been conducted (Urakami et al., 2009; Urakami & Wu, 2010). The main hypotheses employed in those studies were as follows:

- *Hypothesis 1*: Relatively large wholesalers, in terms of total sales, who are located in urban areas, tend to have their own brands.
- *Hypothesis 2*: Relatively large wholesalers in terms of total sales would have advantages by establishing their own specialty stores even though their financial condition may not be any better than relatively smaller wholesalers.

To test both these hypotheses, the studies obtained data from a survey questionnaire conducted in February 2006, (Komiya & Urakami, 2006). The Yearbook of Textile/Apparel Companies, edited by the Credit Exchange Agency Ltd. Japan, provided additional data such as total sales. The total sample size was 3,008 for the category of wholesalers that dealt with menswear, women's wear, children's wear, school uniforms, work wear, knitted wear, casual wear, jeans, sportswear and shirts. The survey questionnaire was conducted in two steps. Firstly, a questionnaire was mailed to 300 companies randomly selected from the 3,008 available wholesalers. The response from the questionnaires allowed us to determine the whether the questions were clear and concise enough in order to complete this research, or whether adjustments to the questions were necessary. The resulting questionnaire was then mailed to the remaining 2,708 companies. The number of questionnaires received from this step totaled 470 - a response rate of 17.4 percent.

In order to test and analyze both the hypothesis, Urakami et al. (2009) adopted the probit and the multinomial logit model, whereas Urakami & Wu (2010) adopted only the probit model. Readers are referred to the original articles for the full details of the results obtained, however, the main results are summarized here. Large wholesalers located in urban areas tend to have their own brands, whereas small wholesalers in rural areas tend to handle goods provided to them by other suppliers. Secondly, large wholesalers tend to own specialty private label stores, but these wholesalers experience a worse financial outcome. Furthermore, we obtained additional results which suggested that wholesalers, who handle a wide range of apparel products and conduct business with retailers located the same area, tend not to have their own brands, whereas, wholesalers that have brand strength, have at their disposal their own specialty stores.

Thus, the results from our empirical analyses are consistent with the recent trend of the SPA business model of the apparel industry, especially relating to those wholesalers who have a

large total number of sales. However, the SPA business model is classed as a total channel strategy system, where wholesalers are responsible for the complete coordination throughout the distribution channels (manufacture-wholesale-retail) - ie it is vertically integrated. However, that earlier empirical study focused on apparel wholesalers, and in order to build a more complete picture of apparel retailers and apparel manufacturers, further research needs to be conducted.

## V. Case Study Research for the Korean and Japanese Apparel Manufacturers

Apparel manufacturing activities over the past few decades have transferred to east/south-east Asia, particularly to China. During the early 1990s, it was recognized that the textile and apparel industries had an important role to play in both the Japanese economy and in neighboring economies of Korea and Taiwan. We conducted a study into apparel manufacturers to understand how the manufacturing apparel market in Korea, Taiwan and Japan had changed during this period (Komiya et al., 2009).

It is important to note that a large number of SMEs provide fashion products throughout the world and any studies conducted should not ignore this fact. In this study, the research highlighted a number of small to medium apparel manufacturers (SMAMs) in Japan, Korea and Taiwan.

The hypothesis tested was as follows:

- *Hypothesis:* The types of marketing strategies adopted by SMAMs in Japan, Korea and Taiwan would be different because of the materials market, the distribution channels and the industrial or commercial agglomerations.

We conducted semi-structured interviews with two apparel SMAM presidents; Lee Kyung Ran, president of TGT Inter Design, Korea, and Masaki Sato, president of Sato-Seni, Japan. An apparel

company based in Taiwan was not selected because, from an interview with the Taiwan Textile Federation, we learned that Taiwan's SMAM strategies were similar to the strategies employed by Japanese apparel companies.

The basis of these interviews was to understand the history of their companies, their current operations and establish their future plans.

In Korea, the strategies of SMAMs are to differentiate their product designs by considering fashion trends. It was deemed easy for companies in Korea to start-up their business aimed at a Korean market, but expansion of their business into foreign climates proved more difficult. In both Japan and Taiwan, the SMAM strategies were to differentiate their products using consistent and established elements with their brands. With their limited resources, it was difficult for them to differentiate their businesses, however, the success in domestic markets made it easier to conduct their business in foreign markets.

To test the hypothesis of the different business environments, the focus of the SMAM strategies in Korea were only around Dongdaemun. With more than 50,000 manufacturing companies located adjacent to the market area and its surroundings, Dongdaemun plays an important role in both industry as well as commercial agglomeration. They seldom move from the center of Seoul as they almost all carry out the complete production of apparel products in this area (Azuma, 2002). SMAMs located in other parts of Korea had different strategies, which were expected to be similar to the strategies conducted in both Taiwan and Japan.

This limited research data was obtained from interviews conducted with a small number of apparel manufacturers, thus for a fuller picture of the apparel producer strategies, further analysis needs to be undertaken and these issues analyzed empirically, using a questionnaire survey distributed to a larger number of apparel manufacturers.

## VI. Further Discussions

From the questionnaire survey distributed to

apparel wholesalers in Japan, the results derived from the empirical analysis provided an important insight in to the strategies employed by these wholesalers, brand strategy tended to be implemented by relatively large wholesalers located in urban area. Specialty private label stores tended to be owned by relatively large wholesalers, but these wholesalers experience a worse financial outcome.

A similar approach with apparel manufacturers in both Japan and Korea provided a glimpse of their strategies, however, as the data set was limited, it is difficult to empirically prove our findings. Further analysis, encompassing a larger data set is planned for a future study covering both Japan and Korea.

The Yearbook of Textile/Apparel Companies, edited by the Credit Exchange Agency Ltd., should provide a list of apparel manufacturers in Japan with whom to conduct an empirical study. The yearbook provides a total sample size of more than 8,000 under the categories of menswear, women's wear, children's wear, school uniforms, work wear, knitted wear, casual wear, jeans, sportswear and shirts. This sample size seems overwhelmingly large, but by randomly selecting from the list of manufacturers and thereby reducing the samples size, the results can still provide meaningful results. At present, it is unclear whether a similar database of apparel manufacturers in Korea exists. However, contacts with Korean scholars should provide the answers.

As a first step, it is important to define the category of fashion products, which will also provide the basis for discussions with apparel manufacturers in both Japan and Korea. Japanese scholars and practitioners often categorize fashion products as either *Teiban-Shohin* or *Sabetsuka-Teiban-Shohin*. As these are Japanese terms, their usage is not widespread in the rest of the world. However, in order to categorize these terms we employ the studies of Doeringer & Crean (2006) and their concept of 'The Fashion Pyramid'. Using their conceptual model, the term *Teiban-Shohin* is most consistent with 'Basic Commodities,' whereas, *Sabetsuka-Teiban-Shohin* is most

consistent with 'Better Fashions and Bridge Fashion Collections'. In other words, *Teiban-Shohin* is thought of as low-value added fashion products and *Sabetsuka-Teiban-Shohin* can be said as middle-value added fashion products. Based on these definitions, we determine several hypotheses that could be tested.

- *Hypothesis 1*: The SMAMs in Japan that have their own brands would opt to pursue a *Sabetsuka-Teiban-Shohin* strategy (in other words, a middle-cost strategy). In Korea, in particular the markets surrounding Dongdaemun, the SMAMs have their own brands and opt to pursue a low-cost strategy.
- *Hypothesis 2a*: The SMAMs that are successful with the *Sabetsuka-Teiban-Shohin* strategy would conduct product differentiation in relationship with domestic trading partners located in agglomeration district. However, the numbers of trading partners would be limited.
- *Hypothesis 2b*: The SMAMs that are successful with the *Sabetsuka-Teiban-Shohin* strategy would have a future business plan to develop a market overseas.
- *Hypothesis 2c*: The SMAMs that are successful with the *Sabetsuka-Teiban-Shohin* strategy would seek a variety of marketing channels to develop their products, such as sales representatives, mail order, TV/On-line shopping and setting up specialty stores.
- *Hypothesis 3a*: With the standard goods market based around Dongdaemun, the SMAMs that are successful with the *Teiban-Shohin* strategy would seek to form relationships with local domestic trading partners in the design of low-cost goods and provide them with their own specialty stores or wholesalers. The numbers of possible trading partners would be large.
- *Hypothesis 3b*: For the standard good market based around Dongdaemun, the SMAMs that are successful in pursuing *Teiban-Shohin* strategy would depend only on the domestic market.

- *Hypothesis 4*: The SMAMs in Japan would not recognize the merit of industrial agglomeration as a route to reduce costs, however, industries in Korea would identify this merit and seek businesses with a lot of trading partners that offer niche and versatile technologies that would aid in reducing costs further.

These hypotheses are still a matter of debate and should be modified and adopted to suit the research after discussions with scholars from both Japan and Korea. Additionally, it is important to interview several SMAMs in Japan and Korea in order to gather background information of the industry as well to define and clarify the questionnaire that is required for the empirical study.

## VII. Concluding Remarks

For over six years, the authors have conducted research and published academic papers focusing on the apparel industry. Several important findings have been gleamed from our past research, but in order to build a complete picture, further empirical analysis needs to be undertaken. The small sample size of the apparel manufactures in Japan and Korea are not sufficient to analyze the hypotheses, so a more through analysis, including a questionnaire survey sent to a large number of apparel manufacturers, is required to build a clearer picture. In order to accomplish this task successfully, support from Korean scholars is required via a joint collaboration.

## References

- Azuma, N. (2002). Pronto moda Tokyo-style - emergence of collection-free street fashion in Tokyo and the Seoul-Tokyo fashion connection. *International Journal of Retail & Distribution Management*, 30(3), 137-144.
- Doeringer, P., & Crean, S. (2006) Can fast fashion save the US apparel industry?. *Socio-Economic Review*, 4(3), 353-377.
- Flath, D., & Nariu, T. (2008). The complexity

- of wholesale distribution channels in Japan. *The Japanese Economy*, 35(2), 68-86.
- Ito, T., & Maruyama, M. (1991). Is the Japanese distribution system really inefficient?, in Krugman, P. (Ed.), *Trade with Japan: Has the Door Opened Wider?*, University of Chicago Press, Chicago, 149-174.
- Japan Fashion Education Promotion Association (1995). *Fashion Business Gairon (An Introduction to the Business of Fashion)*, Japan Fashion Education Promotion Association, Tokyo (in Japanese).
- Kim, W. (2004). Daikibo Oroshiurikigyō no Senryakutekikoudou ni Motozuku Ryuutsuutansyūkuka no Kousatsu ("A research on distribution channel shortening resulting from large-scale wholesalers' strategic behaviour"), *Ryuutsuu Kenkyū (Journal of Marketing and Distribution)*, 7(2), 75-89 (in Japanese).
- Komiya, K., & Urakami, T. (2006). *Apparel Oroshiurigyo ni Kansuru Ankeito Chosa Houkusho* ("A report on the questionnaire survey for the Japanese apparel wholesalers"), Working Paper of School of Business Administration, Kinki University, No. KEIEI2006-0004 (in Japanese).
- Komiya, K., Inoguchi, J., Kim, W., & Urakami, T. (2009). International marketing strategies of small to medium sized apparel companies: Evidence from South Korea, Taiwan and Japan, Paper Presented at the 4<sup>th</sup> International Symposium on Economic Theory, Policy and Applications in Athens, Greece.
- Martin, D., Howard, C., & Herbig, P. (1998). The Japanese distribution system. *European Business Review*, 98(2), 109-121.
- Maruyama, M. (2004). Japanese distribution channels: Structure and strategy. *The Japanese Economy*, 32(3), 27-48.
- Motohashi, K. (2006). Globalization of Japanese firms and its impact on domestic economy, Paper presented at APPC Conference at Seoul, Korea.
- Nariu, T., & Flath, D. (1993). The complexity of wholesale distribution channels in Japan. in Czinkota, M. R., & Kotabe, M. (Eds.), *The Japanese Distribution System: Opportunities & Obstacles, Structures & Practices*, Probus Publishing Company, Chicago, 83-98.
- Nishimura, F. (1993). The measurement of wholesale stages and structural change in Japan, in Czinkota, M. R. and Kotabe, M. (Eds.), *The Japanese Distribution System: Opportunities & Obstacles, Structures & Practices*, Probus Publishing Company, Chicago, 99-122.
- Urakami, T., & Wu, X. (2010). Specialty store strategy within Japanese apparel wholesalers: An empirical analysis. *Journal of Fashion Marketing and Management*, 14(4), 634-647.
- Urakami, T., Komiya, K., & Inoguchi, J. (2009). Self-planning functions within the Japanese apparel wholesale industry. *Journal of Fashion Marketing and Management*, 13(3), 311-324.
- Yano Research Institute Ltd. (Ed.) (2009). *SPA Industry (Specialty Store Retailers of Private Label Apparel) 2009*.