

Strategies within Japanese Apparel Manufacturers

Junji Inoguchi[†], Kazutaka Komiya*, Woonho Kim** and Takuya Urakami***

Graduate School of Commerce, Otaru University of Commerce, Otaru, Japan

Faculty of Economics, Kagawa University, Takamatsu, Japan*

College of Commerce, Nihon University, Tokyo, Japan**

Faculty of Business Administration, Kinki University, Higashi Osaka, Japan***

(2012. 4. 23. 접수일 : 2012. 6. 4. 수정완료일 : 2012. 6. 5. 게재확정일)

Abstract

Based upon a questionnaire survey, this research study focuses on the Japanese apparel manufacturers. The aim is to understand the characteristics that make up the marketing strategies of Japanese small to medium sized apparel manufacturers. The authors generate exploratory hypotheses, which are tested via statistical analysis of data obtained from a questionnaire survey. The hypotheses tested include, the relationships between “High Value Added” strategies and factors involved with manufacturing and marketing channels. High Value Added strategies relate to the manufacturers’ competitive behaviors that create high and new value for their products. The results indicate that High Value Added strategies have positive relationships for domestic outsources, the number of outsources, use of directly operated shops and the orientation for sales in overseas markets.

Keywords: apparel manufacturer, strategy, Japan, high value added strategy, questionnaire survey

I . Introduction

The Japanese business climate of apparel products is changing with China becoming a major player and other countries like Bangladesh and Vietnam booming. It is apparent that a major shift has occurred in the business environment relating to apparel products manufactured in China or other low-wage countries, which have invaded import markets throughout the world economies. Such a drastic change in the business environment of competing economies impacts distribution channel structures, affecting both wholesalers and manufactures. Therefore, the need to understand and research existing apparel companies is re-

quired in order to comprehend existing strategies and determine the future survival of these apparel companies.

The authors conducted quantitative research on the business strategies of small to medium sized apparel companies, especially in relation to the Japanese wholesaler in apparel manufacture markets (Komiya, Inoguchi, Kim & Urakami, 2009; Urakami, Komiya & Inoguchi 2009; Urakami et al., 2010; Urakami & Wu 2010). One similar study highlighted the strategies of small to medium sized apparel manufacturers in developed countries in East Asia (Komiya et al., 2009). Other studies revealed the factors affecting the recent trend of self-planning functions within Japanese apparel wholesalers (Urakami, Komiya &

This research was supported in part by Grant - in - Aid for Scientific Research (C) (KAKENHI-KIBAN C).

[†] 교신저자 E-mail : inojun-u@res.otaru-uc.ac.jp

Inoguchi 2009) and clarified the characteristics of those apparel wholesalers who own or intend to establish specialty private label stores (Urakami & Wu 2010).

However, those studies are based on a limited number of cases (Komiya et al., 2009; Urakami et al., 2010) and the findings should be statistically generalized for more robustness. In addition, little or no attempts have been made at quantifying research for Japanese apparel manufacturers. Hence, this is addressed by this research by focusing on the strategies within Japanese apparel manufacturers through a questionnaire survey. We reveal the types of strategies and related factors.

II. Background

Many Japanese apparel companies are struggling. As mentioned before, foreign companies dominate the Japanese apparel market, with the penetration of imported products being very serious for Japanese companies. From a total quantity of 89.0%, foreign products occupy 70.8% of total sales price of apparel products in the Japanese market (Urakami & Wu 2010).

Whilst many Japanese apparel companies suffer because of low-priced foreign products, some companies such as FIRST RETAILING (UNIQLO) or WORLD are bucking the trend by having a strong foothold in the Japanese market. They are typical cases of a “SPA” company. SPA is derived from “Specialty store retailer of Private Apparel.” It is distinguished from other apparel companies in that the business activities are fully integrated from material procurement, product development, production, distribution, inventory management to finally sales. Yano Research Institute Ltd., estimated the market size of SPAs as 3.5 trillion JPY in Japan, whereas that of the total apparel retail was 7.7 trillion JPY (Yano Research Institute 2009). Within the apparel industry, the SPA model is now considered important.

However, it is difficult for small to medium sized companies to be SPA companies by the reason of resource scarcity. The SPA model requires vertical integration, a system that deals with the coordination of marketing, sales and purchasing activities of retailers as well as the design, production, and distribution activities of manufacturer in the company. In other words, for a company to adopt the SPA model, it needs to have a large number of resources or capabilities in order to manage the interrelationship among the wide range of functions.

For these reasons, the SPA model is not an acceptable strategy for many Japanese apparel manufacturers, since the majorities are small to medium sized companies. According to the 2005 statistics obtained from the Ministry of Internal Affairs and Communication, 93.3% of apparel manufacturers have less than 50 employees. Although a few pioneering studies show the possibility for small to medium sized companies to conduct their business like SPA companies by utilizing business networks such as Dongdaemun in Seoul or manufacturers accumulation in New York, even those studies indicate disadvantages of scarce capability and economies of scale compared to larger companies (Azuma 2002; Doeringer & Crean 2006).

The studies mentioned above and the research topics have led us to questions such as: “What strategies can Japanese apparel manufacturers adopt for their survival?” and “What factors are related to the strategy?”

1. High value added strategy

The authors propose “High Value Added (hereafter, referred as “HVA”)” strategy for Japanese small to medium sized apparel manufacturers. In this study, a HVA strategy refers to the behaviour of manufacturers that intended to realize differentiation based on high quality materials and eminent production techniques. The manufacturers adopting HVA strategies differentiate themselves from competitors that compete

on price. However, products assumed for HVA strategys are not luxurious items from super brands or fashion collections. In this research, the authors assume that the products are, what we call, “Better Fashions and Bridge Fashion Collections” in “The Fashion Pyramid” defined in a prior study (Doeringer & Crean 2006). In short, typical products for HVA strategys are neither commodities nor high-end brands. As far as the authors are aware from their prior studies, well performed Japanese small to medium seized apparel manufacturers have a tendency to adopt HVA strategys (Urakami et al., 2010; Inoguchi 2011).

1) An example of a HVA

A good example for an apparel manufacturer that adopts a HVA strategy is, “241 CO. (*Ni Yon Ichi* in Japanese)” located in Kurashiki city, famous for denim products and the largest industry agglomeration of apparel manufacturers in Japan. Although 241 CO. has only 50 employees, it has strengthened its competitiveness in the market. 241 CO., was established in 1994 by Eiichi FUJII, and was casual apparel products OEM (Original Equipment Manufacturer) contracted to produce other brands. However, 241 CO. expanded its business to ODM (Original Design Manufacturer), and given the design responsibility to produce other brands. In addition, 241 CO. also develops its own brands and sells them through its directly operated shops. Even though the average price of the own brand is about 30,000 JPY for a pair of jeans, customers are fanatical about buying into the brand. So 241 CO. is growing as both a proposer of sophisticated original design, and as a manufacturer of high value added brands. 241 CO. has more than 120 customer firms, including world famous super brands and a loyal customer base. Total sales are 1.24 billion JPY/year.

Since 2005, 241 CO. has moved into the limelight as the finalist of “Who’s Next?” a highly regarded class at one of Europe’s biggest apparel products

exhibitions. Only 5 out of 400 firms from around the world make the final stage. Famous apparel brands such as Calvin Kline and Nike were included as competitors. At that time 241 CO. was the only finalist from Japan. The exhibition allowed 241 CO. to open up to foreign markets through the exhibition. In order to sell its products in both Japan and overseas, 241 CO. strengthened multiple channels such as directly operated shops and international exhibitions.

241 CO. achieved a reputation for employing techniques that distresses and introduces unique textures and damage to brand-new products for fashion-conscious consumers. Furthermore, 241 CO. utilized their network with other manufacturers in the same industry agglomeration to add value to products. In other words, 241 CO. employs outsources to create the value of the products. By doing so, 241 CO. is able to exploit the production techniques of other manufacturers, who have the technology and know-how accumulated over a number of years, and create new value that cannot be attained by 241 CO. itself.

2. Exploratory hypothesis

It is logical for Japanese apparel manufacturers to emphasize HVA strategys since low price competition with foreign products is difficult. Japanese apparel manufacturers should appeal to consumers regarding the additional added value. As we can see in the example of 241 CO., a HVA strategy seems to have a relationship with certain factors. Specifically, the factors related to HVA strategy is classified into two categories. One factor is regarding manufacturing, with the other factor regarding the marketing channel. Based on these factors, the authors propose exploratory hypotheses.

1) Manufacturing category

It is difficult for small to medium sized manufacturers to keep all the resources required in-house. In particular, the manufacturers often require outsources

when they would like to produce high value added products. The problem that the manufacturers have to consider here is the selection of outsourcers. Manufacturers have to select eminent outsourcers that have advanced resources or production skills required for a HVA strategy. In such a case, the manufacturers have a tendency to prioritize domestic outsourcers since, in the average, Japanese outsourcers are assumed to have more skills compared to ones in other countries.

However, such eminent outsourcers are limited even in Japan, and the resources and capabilities of outsourcers to manage the relationship with other companies are also limited. As limitations, manufacturers that emphasize a HVA strategy would select only limited number of eminent outsourcers.

For the reasons mentioned above, the hypotheses regarding the relationship between a HVA strategy and factors about manufacturing are posed below.

H1. Manufacturers' with an emphasis on adopting an EVA strategy has a positive preference for domestic outsourcers.

H2. Manufacturers' with an emphasis on adopting an EVA strategy is negative to the numbers of outsourcers.

2) Marketing channel category

When the manufacturers emphasize a HVA strategy, the rationality for them having directly operated shops increases. It is common for small to medium sized manufacturers to sell their products through wholesalers, or conduct direct sales to retailers. In either case, the manufacturers sell the products through distribution companies. However, manufacturers that emphasize a HVA strategy would have a tendency to have directly operated shops since they must control prices and the image of their products in order to realize the added value. Manufacturers can set an appropriate price for high value added products and make dazzling displays to make the high value added products more attractive. In addition, information provision by knowledgeable salesclerks for consumers would

be an important sales pitch, as would additional information at the shop allowing product differentiation. Hence an exploratory hypothesis H3 is introduced:

H3. Manufacturers' adopting an EVA strategy has a positive relationship with utilization of directly operated shops.

It is rational that manufacturers that emphasize differentiation chose the market where their products can attain a high reputation. Thus, manufacturers that emphasize a HVA strategy chose markets where the added values attain greater reputation. This logic leads Japanese apparel manufacturers to foreign markets, where the quality and production techniques of Japanese products have a greater reputation than in the domestic market. In addition, Japanese apparel manufacturers seek to cultivate world markets since the Japanese apparel market is already saturated. Based on these reasons, further hypothesis (H4) regarding marketing channels, is tested:

H4. Manufacturers' emphasis on a HVA strategy has positive relationship to the sale orientation

III. Method

This study is designed to understand Japanese small to medium sized apparel manufacturers, to identify the factors related to adopting a HVA strategy and to identify the relationship between them. In order to attain the purposes of the study, the authors employ a questionnaire survey aimed at Japanese apparel manufacturers.

1. Data collection

The questionnaires were mailed to randomly sampled 4,406 Japanese apparel manufacturers in the categories of men's wear, women's wear, children's wear, school uniforms, work wear, knitted wear, casual wear, jeans, sportswear and shirts. The observations were sourced from *Zenkoku Seni Kigyou Youran 2010 [The Yearbook of Textile/Apparel Com-*

panies 2010], edited by the Credit Exchange Agency Ltd. in Japan. The period of the survey was from January to February in 2011. To increase response rates, this study used follow-ups and postcard reminders. The total usable questionnaires were 1,199 (27.2% of mailed questionnaire). In addition, the study selected manufacturers that have less than 300 employees, and own manufacturing functions and self-brands. In order to attain the aim of this study, the authors choose small to medium sized manufacturers that are likely to adopt a HVA strategy (i.e. use of high value added self-brands in this study). Therefore the number of questionnaires analyzed totalled 341.

2. Instrument

The questionnaire for this study was produced by researchers and based mainly on previous interviews with manufacturers. The self-administrated questionnaire contained 4 sections: (a) categories of apparel business (i.e. the type of main products and main business functions, (b) commissioning manufacturing, (c)

self-brands manufacturing and (d) manufacturer's demographic information. Both close-ended and open-ended questions were used in the questionnaire. The open-ended questions were used to determine factors such as overseas sales, the numbers of trading company, and demographic information such as the number of employees and their average age. The majority of the questionnaire is composed of close-ended questions, consisting of a 5-point Likert-type scale.

This study made composite variables to develop measurement scales for HAV, PDO, SOM since an appropriate scale could not be found in prior studies. The authors utilized the average point of multiple items. The appropriateness of multiple items used for the variables are shown by Cronbach's coefficient α in <Table 1>. NOO is measured on a single item obtained from outsources a by open-ended question. Variables for marketing channels, including DOP, are measured on dummy variables. The marketing channel categories are classified into wholesale (WHSL), retail (RETL), directly operated shop (DOP), web (WEB) and TV or catalog shopping (TVCA). The

<Table 1> Variables

Variable	Questions	Number of items	α
HVA ¹⁾	High quality	3	0.70
	Using the unique technology		
	Having the unchanging product features		
PDO ²⁾	Your company places priority on domestic companies as outsources	2	0.75
	Your company actively outsources productions to foreign companies (Reversed score)		
NOO	Number of outsources	1	-
SOM ²⁾	Your company are interested in selling in the overseas markets	3	0.86
	Your company makes an active effort to sell in the overseas markets		
	Your company hope to sell in the overseas markets in the future		
WHSL	Sale to the wholesalers dummy variable (sale=1, not sale=0)	1	-
RETL	Sale to the retailers dummy variable (sale=1, not sale=0)	1	-
DOP	Sale at the directly operated shops dummy variable (sale=1, not sale=0)	1	-
WEB	Sale on the web site dummy variable (sale=1, not sale=0)	1	-
TVCA	Sale on the TV or catalogue dummy variable (sale=1, not sale=0)	1	-

¹⁾ Own products 5: advantageous - 1: disadvantageous, ²⁾ 5: agree - 1: disagree.

details regarding the variables used in this study are shown in <Table 1>. After the variables are identified, the authors conducted multi regression analysis with HVA as a dependant variable and others as independent variables.

IV. Estimation Results

The authors conducted multi regression analysis with HVA as dependent variables for 3 models. The first model concerns manufacturing category (manufacturing model), which makes the dependent variables PDO and NOO. The second model concerns the marketing channel category (channel model), with dependent variables of WHLS, RTL, DOP, WEB, TVCA, and SOM. The third model is integrated model of both model 1 and model 2 (integration model). <Table 2> shows the estimated results from the studies.

All the supposed relationships between the variables in hypotheses are statistically significant and have consistent tendencies in all of the models. Although the r-square in each model is not high, the

explanatory power increases in the integration model.

All the hypotheses, except for H2, are supported, in that POD, DOP and SOM have a positive relationship with HVA. However, on the contrary to hypotheses, the relationship between NOO and HVA has also positive relationship at a 5% statistically significant level. As far as we can see from the regression coefficient, POD and SOM have a strong relationship with HVA compared to the other two factors.

Based on the findings, the authors propose a possible interpretation for the positive relationship between HVA and NOO. That is, the number of processes to produce elaborated HVA products is more than that of ordinal products. However, small to medium sized manufacturers don't own such a wide variety of production techniques in one company. Consequently, they have to rely on outsources. In accordance with the increased number of processes, manufacturers emphasizing HVA requires more outsources.

V. Discussions

The aim of this paper is to clarify the charac-

<Table 2> Estimation results

Variable	Dependent variable: HVA					
	M1(Manufacturing model)		M2(Channel model)		M3(Integration model)	
	Estimate	<i>t</i> -statistic	Estimate	<i>t</i> -statistic	Estimate	<i>t</i> -statistic
C		28.165***		22.199***		14.007***
PDO	0.215	4.101***			0.256	4.954***
NOO	0.192	3.675***			0.156	3.056**
WHLS			-0.043	-0.085	-0.053	-1.035
RTL			0.014	0.257	0.062	1.206
DOP			0.142	2.618**	0.115	2.193**
WEB			0.007	0.124	0.023	0.427
TVCA			0.020	0.363	0.031	0.591
SOM			0.225	4.028***	0.231	4.294***
<i>F</i> -value	14.327		5.420		8.511	
Adjusted R^2	0.073		0.072		0.150	

** $p < .05$, *** $p < .01$.

teristics of the marketing strategy adopted within Japanese small to medium sized apparel manufacturers. We proposed a HVA strategy for Japanese small to medium sized apparel manufacturers as one of the possible ways to attain a market advantage. In addition, the authors generate some hypotheses about the factors relating to HVA. The results show that a HVA strategy has positive relationships with preference for domestic outsources, the number of outsources, use of directly operated shops and the orientation for sales in overseas markets.

1. Theoretical contributions

This study has three theoretical contributions. Firstly, this study proposed one of the strategies (HVA) that could be chosen by Japanese small to medium sized manufacturers for their survival. This study developed the scales of HVA strategies and the factors affecting these strategies, and revealed the relationship between them by the analysis of a questionnaire survey.

Secondly, the findings from this research are pioneering for Japanese apparel manufacturers' marketing strategy, involving a quantitative research based on large sample questionnaire survey data. As far as the authors are aware, it is difficult to find academic studies relating to marketing strategies for Japanese apparel manufacturers with an equivalent or larger sample data size. In addition, even in international academic journals for apparel business, there are few quantitative research studies relating to marketing strategies of apparel manufacturers, although a number of quantitative studies relating to industrial management strategies are available (Lin, Kincade, & Avery 2002; Bheda, Narag, & Singla 2003).

Thirdly, not only are the findings based on a large sample data set, the development of data set itself is valuable. We can expect to generate and test more meaningful hypotheses by analyzing the data set.

2. Managerial implications

This study has two managerial implications. Firstly,

we propose a strategy option for Japanese apparel manufacturers and a guide for the manufacturers to adopt a HVA strategy. If some Japanese manufacturers adopt a HVA strategy, they can determine whether they take action for POD, NOO, DOP and SOM. Especially, based on regression coefficient, POD and SOM seem statistically significant.

Secondly, this study provides apparel manufacturers in developed countries with useful information to survive in a competitive market. Although this study is based on the data from only Japanese manufacturers, similar market pressures for domestic manufacturers in other developed countries exist. A HVA strategy would be useful for manufacturers in developed countries, especially those that are located near to developing countries known as apparel production bases.

3. For future studies

The authors recognize two points for the future studies. The first one is the necessity for research regarding inter-organizational relationships between outsourcer and outsourcees. Based on this study, we can assume inter-organizational relationships between them play important role for HVA. However, this study has not analyzed the quality of inter-organizational relationships but only the number of trading relationship. We have to consider the quality of inter-organizational relationships as to a HVA strategy based upon factors of trust, power, dependency and so on.

The other one is international comparative studies. A HVA strategy is just one option among the many strategies available to apparel manufacturers, and the results are based on only a Japanese apparel manufacturer data set. More data from other countries are required for analysis in order to understand the apparel business and strengthen the robustness of the findings in this study.

References

Azuma, N.(2002). Pronto moda Tokyo style emer-

- gence of collection-free street fashion in Tokyo and the Seoul-Tokyo fashion connection. *International Journal of Retail & Distribution Management*, 30(3), 137-144.
- Bheda, R., Narag, S. A., & Singla, L. M.(2003). Apparel manufacturing: A strategy for productivity improvement. *Journal of Fashion Marketing and Management*, 7(1), 12-22.
- Credit Exchange Agency Ltd.(2010). *Zenkoku Seni Kigyou Youran 2011*. [The Yearbook of Textile/Apparel Companies for 2011]. Credit Exchange Agency Ltd., Japan.
- Doeringer, P., & Crean, S.(2006). Can fast fashion save the US apparel industry?. *Socio-Economic Review*, 4(3), 353-377.
- Inoguchi, J.(2011). Implementation of market orientation in small sized company: Case study on a Japanese apparel manufacturer. *International Journal of Emerging Science*, 1(3), 200-210.
- Komiya, K., Inoguchi, J., Kim, W., & Urakami, T. (2009, Aug.). International marketing strategies of small to medium sized apparel companies: Evidence from South Korea, Taiwan and Japan. *Paper presented at 4th International Symposium on Economic Theory, Policy and Applications in Athens, Greece.*
- Lin, S., Kincade, A. M., & Avery, C.(2002). Dimensions of apparel manufacturing strategy and production management. *International Journal of Clothing Science and Technology*, 14(1), 46-60.
- 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.
- Urakami, T., Komiya, K., Kim, W., & Inoguchi, J. (2010). Japanese apparel industry: A recent survey of wholesalers and manufacturers. *The International Journal of Costume Culture*, 13(2), 93-100.
- 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.
- Yano Research Institute Ltd. ed.(2009). *SPA MARKET SOURAN 2009*. [The Compendium of Specialty Store Retailers of Private Market 2009], Yano Research Institute, Japan.