

ABSTRACT

Into the Middle Kingdom: A Case Study of Uniqlo's Success in China

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Business in China has been a global topic of intrigue for many years, and still is to this day, especially as the country quickly reaches the position of largest economy in the world. With opportunity on the horizon, the answer to the question of success as a foreign company in China remains ambiguous. The purpose of this case study is to investigate the reasoning behind the Japanese clothing brand, Uniqlo's, success in the Chinese market. This company currently holds the largest market share of any fast-fashion apparel brand in China and continues to grow in market share year after year. The case study aims to answer the question of what contemporary success in the Chinese market looks like for a foreign apparel brand and may apply to other business types. The structure of this thesis is first reviewing the important histories needed to understand the challenges Uniqlo faces in the Chinese market, followed by an in-depth investigation of some of their most successful business strategies in China specifically. Upon further analysis, the case study shows a central aim toward the rising middle class of China and younger generation of China in many of the company's most successful strategies fulfilled in the country. This paper concludes that Uniqlo's success in China, is attributed to factors such as the increasing power of the middle class, increasing urbanization, consumption trends, digitalization, and successful socio-political approaches.

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INTO THE MIDDLE KINGDOM: A CASE STUDY OF UNIQLO'S SUCCESS IN
CHINA

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TABLE OF CONTENTS

Chapter 1: Introduction	1
Chapter 2: Challenges in Sino-Japanese History and Political Relations	5
Chapter 3: The Consumer and the Strategies	16
Chapter 4: The Takeaways	37
Bibliography	43

CHAPTER 1

Introduction

Since 1978, China's economy has arisen from stagnation due to political isolationism during the Cultural Revolution, to its current position as the world's second largest economy to date. Its unprecedented economic growth in the last forty years can be attributed to its opening up policy introduced by its leader Deng Xiaoping to attract foreign direct investment (FDI) and foreign companies to invest across sectors in China. To succeed in China, foreign companies need to develop their strategies in all aspects, including marketing, human resources, logistics, finance, and research and development. This thesis intends to investigate the success of the Japanese apparel brand Uniqlo in China. The reason for choosing to investigate this company, specifically in a case study format, is mainly because of its reputation as one of the few foreign brands that has maintained (to current-day) its long-term success in the Chinese market since it first entered the country in 2002, and has transformed apparel consumption in China, with the purpose of providing insight into what successful Chinese market penetration looks like today.

Background

By exploring the success of a company like Uniqlo, which is a current foreign powerhouse business in China, other businesses, educational facilities, and individual students can hopefully learn from this paper. Currently, management consulting firms, specifically McKinsey and Bain, are the leading

institutions in Chinese business and economics research for Western audiences, so hopefully this research can replicate the contributions of management consulting firms in the business and academic worlds, while also ensuring that this research is indeed meaningful and new.

Purpose

The research will be presented in a case study format and will investigate the success of the Japanese company Uniqlo, in the Chinese market specifically. In short, Uniqlo has quickly become among the top three apparel brands in China, holding the highest share of the fast-fashion apparel in the Chinese market of any company (including domestic brands), more share than both Inditex (Zara) and H&M, its main competitors.² At first glance, one may ask how a foreign company could be so successful in a country that has become infamous for its tempestuous foreign relations with economically powerful countries (such as the United States), especially in conjunction with the historically resentful perception China has held towards Japan since its occupation prior to and during World War II. This seemingly impossible paradox of successful Japanese companies in China is what first sparked an interest to investigate the idea further. Ironically, this same “dichotomy” of politically relational resentment and economically relational success has created some issues in other countries. South Korea for example, which has a thriving economic relationship with Japan, but holds resentment

² Ma, Y. (2022, March 4). *China: Leading Apparel Brands Market Share*. Statista. Retrieved April 25, 2022, from <https://www.statista.com/statistics/734753/china-most-valuable-apparel-brands-market-share/#:~:text=The%20graph%20shows%20the%20market,of%20them%20were%20domestic%20brands.>

towards Japan for its wartime atrocities, made Uniqlo the face of a trade war between Japan and South Korea through a boycott of Japanese goods, stemming from underlying World War II tensions. This company was then selected to be investigated with the goal of being able to learn from a business that has been able to overcome these socio-political obstacles in China and is able to maintain a top position in the Chinese market that many other foreign brands are unable to do.

Overall, this thesis will aim to answer how Uniqlo has succeeded in the Chinese market within the apparel industry, despite a history of anti-Japanese sentiment, while also determining Uniqlo's target market in China, the reasoning behind specific promotions' success, and why Uniqlo's product and price is structured perfectly for Chinese consumers. Hopefully, by answering this overarching question, we can gain a better understanding of what contemporary Chinese market success as a foreign company looks like, and apply some elements of said success to our own business studies and endeavors.

Structure of Thesis

This thesis paper will be organized into four chapters. The first chapter will provide context to the topic of choice and illuminate the importance of the research. The second chapter will focus on the historical context leading up to the current situation important to understanding the research, including the history of Chinese and Japanese political, social, and business relations, economic development in China over the course of the past forty years, the rise of the Chinese middle class, the re-opening of the Chinese market to foreign powers, the history of Japanese companies in China, and a short history of Uniqlo itself. The third chapter will be divided into two sections. The first section will

provide a necessary description of the current Chinese market, in terms of what consumers look like, which will set up the challenge that Uniqlo would have to overcome, and inevitably establish their target consumer group. The second part of the third chapter will be an in-depth investigation of the company, that being three of the most successful business strategies that will bring us to understand the efforts made to reach the feats that Uniqlo has been able to thus far, considering factors such as the inventory itself (product, design, quality, etc.), location, and the importance of social media implementation. One should note that these three strategies encompass the four “P”s of marketing, that being people, place, price, and product, and are specific to Uniqlo’s strategy in China, as opposed to their general international strategy or domestic strategy. Finally, the fourth chapter will outline the important takeaways from our investigation, in order to clearly understand both the current and future states of foreign business exchange in China (within the context of this investigation), and to also apply these findings to our own experience in the global business world.

CHAPTER 2

Challenges in Sino-Japanese History and Political Relations

This chapter will provide a brief overview on the history of Chinese and Japanese political, social, and business relations, which are necessary to understand the challenges and success of Uniqlo in China. It will explore the socio-political relationship between China and Japan, the history that has created anti-Japanese sentiment in China, economic development in China over the course of the past forty years, the rise of the Chinese middle class, the re-opening of the Chinese market to foreign powers, the history of modern Japanese investments and trade in China, and a short history of Uniqlo itself.

The Anti-Japanese War of Resistance

The Anti-Japanese War of Resistance marked the beginning of the largest war fought in Asia within the 20th Century and left a mark on East Asia that is still remembered to this day.³ In the early 1930s, Japanese expansionism had grown to a point that compelled China to resist its forces, beginning with the occupation of Manchuria by the Japanese, which further insighted Japanese Imperial policy to encroach into inner China, in the hopes of controlling its valuable raw materials that the island of Japan could not produce on its own.⁴ By 1937, the war had officially begun with the “Incident at the

³ Britannica, T. Editors of Encyclopaedia (2020, November 10). Second Sino-Japanese War. Encyclopedia Britannica. <https://www.britannica.com/event/Second-Sino-Japanese-War>

⁴ Ibid

Marco Polo Bridge”.⁵ While considered a minor skirmish, it pushed Japan to aim for the extinguishment of Chinese nationalism.⁶ Throughout the period from 1937 to 1941, Japan occupied many of the most powerful cities throughout China, including Shanghai, Southern Shanxi, and most notably Nanjing. The Nanjing massacre, also known as the Rape of Nanjing, is considered one of the worst war-time atrocities committed during this time. From December 13, 1937 to the end of January, 1938, a period of only about six weeks, the Japanese soldiers who occupied Nanjing killed nearly 300,000 unarmed soldiers and civilians who already surrendered upon the Japanese arriving.⁷ Iris Chang, the author of “the Rape of Nanking”, notes that the amount of people killed during this occupation outnumbered “even the combined death toll of the two atomic blasts at Hiroshima and Nagasaki by the end of 1945 (estimated at 140,000 and 70,000 respectively)”,⁸ not to mention the rampant occurrence of rape, torture, and looting that ensued throughout the period. James McCallum, an American working at a hospital in Nanjing during the Japanese occupation, wrote letters documenting some of the many atrocities happening at the time, writing that “[a] woman six months pregnant, who resisted [rape], came to [them] with 16 knife wounds in her face and body, one piercing the abdomen. She lost her baby but her life will be spared”,⁹ just one of his many eye-

⁵Ibid

⁶ Ibid.

⁷ Ibid.

⁸ Chang, Iris. *The Rape of Nanking: The Forgotten Holocaust of World War II*. Basic Books, 1997.

⁹ Andrew Carroll (4/22/2022) An American Missionary Describes ‘Beastly’ Atrocities in Nanking. HistoryNet Retrieved from <https://www.historynet.com/an-american-missionary-describes-beastly-atrocities-in-nanking/>.

witness accounts of terror imposed on civilians during the massacre. The Anti-Japanese War of Resistance only came to an end upon Japan entering the Second World War, specifically through Pearl Harbor, and Japan's ultimate surrender to the Ally Powers in response to the American nuclear bombings in August of 1945.¹⁰

Japan and China are still debating over the atrocities committed during the Anti-Japanese War of Resistance, with Japan claiming exaggeration on China's part, and China claiming the number 300,000 in terms of the death-toll during the Nanjing Massacre, and imploring requests such as educational requirements of Japanese students on the issue, comparable to that of the holocaust required to be in German curriculum.¹¹ The repercussions of this war have translated to a fragile socio-political relationship between China and Japan still experienced to this day.¹² In a video interview by Asian Boss titled "What the Chinese think of Japan" (May 2nd, 2018), one man notes that "[he] watched many anti-Japanese dramas with his grandparents, so [his] impression [of Japan] is not very good" while another man, when asked what he thinks of when he hears the word Japan, says "war and aggression towards China".¹³ This paradoxical perception of Japan is important to understand because of the obstacle it creates for a Japanese

¹⁰ Britannica, T. Editors of Encyclopaedia (2020, November 10). Second Sino-Japanese War. Encyclopedia Britannica. <https://www.britannica.com/event/Second-Sino-Japanese-War>

¹¹ Renouard, J. (2017, December 26). *Japan, China, and the strains of historical memory*. The Diplomat. Retrieved April 24, 2022, from <https://thediplomat.com/2017/12/japan-china-and-the-strains-of-historical-memory/>

¹² Ibid

¹³ Asian Boss. (2018, May 2). *What the Chinese think of Japan* [Video]. YouTube. <https://www.youtube.com/watch?v=hfR9pwwR5yE>

company, such as Uniqlo, which must be considered when approaching the people of the Chinese market - a challenge Uniqlo would be able to overcome.

The Cold War and the Fight for the New Japanese Economy

Following the turmoil of World War II, the Japanese economy was left desolate. As global powers moved into the Cold War, the United States attempted to garner heavy influence in the once powerful force that the Japanese Empire was. Compared to Germany, that has paid over \$38.6 Billion by 2000 in reparations,¹⁴ had many of their territories annexed, and their industries and infrastructure dismantled, Japan did not have nearly as many reparations imposed on them, and never had to apologize to many of its prior colonies. This lack of punishment came as a result of the Soviet Union, China, and the United States fighting for the future of the Japanese economy and appealing to the Japanese people in restricting their government.¹⁵ During the American occupation of Japan following the end of World War II, the United States made many efforts in transforming the Japanese economy, partly because the U.S. felt that a poorer society would be easier to turn to communism by the Soviet powers, while a wealthier transformed economy would encourage democracy and display its transferability.¹⁶ The U.S. could then take advantage of future economic relations with Japan.¹⁷ This post-

¹⁴ CNBC. (2015). *CNBC*. Retrieved April 22, 2022, from <https://www.cnbc.com/2015/03/18/who-still-owes-what-for-the-two-world-wars.html>.

¹⁵ Chang, Iris. *The Rape of Nanking: The Forgotten Holocaust of World War II*. Basic Books, 1997.

¹⁶ Kiprof, Joseph. "What Was the Japanese Economic Miracle?" *WorldAtlas*, WorldAtlas, 22 Aug. 2019, <https://www.worldatlas.com/articles/what-was-the-japanese-economic-miracle.html>.

¹⁷ Ibid

World War II period of immense economic transformation, from the end of World War II to the 1990's, is known to the Japanese as the “economic miracle”, defined by Japan's efficient supply chains, manufacturers, distributors, and tightly woven bank “guilds”,¹⁸ that eventually pushed Japan to become the second largest global economy. This success forced China to swallow their resentment, in order to hopefully get their hands on any portion of this global business opportunity through a healthier economic relationship.¹⁹

Renormalization of Japanese and Chinese Economic Relations

The effort to renormalize Japan into the Chinese economy marked a major moment for China, which would eventually contribute to the rise of the Chinese economy through foreign investments by its neighbor. Prior to 1972, after Japanese occupation, China had adopted a largely isolationist policy in terms of its economy and global business.²⁰ However, the outcome of this isolationism from 1950 to the 70s created a stagnant economy with a per capita GDP estimated to be only \$156 by 1978,²¹ exacerbated by the Great Leap Forward and the Cultural Revolution during this period. In the 70s, a group of reformists in the communist party made great attempts to establish

¹⁸ Ibid

¹⁹ Chang, Iris. *The Rape of Nanking: The Forgotten Holocaust of World War II*. Basic Books, 1997.

²⁰ Eisenman, Joshua. “Analysis | What We Really Know about China's Reform and Opening Up.” *The Washington Post*, WP Company, 7 Dec. 2021, <https://www.washingtonpost.com/news/monkey-cage/wp/2018/11/15/what-we-really-know-about-chinas-reform-and-opening-up/>.

²¹ “Figure 2.1 GDP per Capita, 1978–2017.” UNICEF, <https://www.unicef.cn/en/figure-21-gdp-capita-19782017#:~:text=China%2C%20one%20of%20the%20poorest,about%20US%248%2C830%20as%20converted.>

new policies in order to repair the failing economy, one of them being efforts to re-establish the economic relationship between China and Japan,²² considering that China's neighbor in the same time had risen from desolation to soon becoming one of the largest economies in the world. Ministers and the Communist Party delicately dealt with many issues that arose between a gun-shy China and Japan. China accepted what He Yinan had called a "vague apology" regarding the Japanese invasion of mainland China during the Anti-Japanese War of Resistance, in order to overcome tensions and allow the two parties to begin trade once again.²³ Yutaka Kanda stated his belief that while this allowed the two powers to begin once again interacting with one another positively, at least on an economic level, the "renormalization" of 1972 "underestimated the significance of moral and emotional elements". He Yinan further suggests that "both parties [rushed] through the normalization process and [failed] to adequately resolve the 'history problem [and] territorial disputes'".²⁴ This "sweeping under the carpet" is important in understanding the paradox of economic relationships and social relationships that the two countries still hold towards each other to this day and presents a very important issue that Uniqlo would soon have to face decades later.

China's Economic Reform

The attempt between Japan and China to renormalize their economic relationship marked a first step towards globalization for China and a new

²² Kraus, Charles. "Debating the Sino-Japanese Normalization, 1972." *Wilson Center*, 3 Apr. 2017, <https://www.wilsoncenter.org/blog-post/debating-the-sino-japanese-normalization-1972>.

²³ Ibid

²⁴ Ibid

economic expansion. Only a few years later, China entered a new policy era in what is called the “Chinese Economic Reform”.²⁵ The first stage of this reform, that began in 1978, led by Deng Xiaoping, who is often credited for China’s successful contemporary economy, allowed for foreign investment into the country, decentralizing state-controlled agriculture, and encouraging the expansion of private businesses that were small in number at the time, with the intention of creating economic opportunities across the country and lifting the veil of poverty.²⁶ The success of the first phase was exacerbated when the economic reform developed into its second stage during the 80s and 90s that moved to privatized, previously-government-run sectors of business and eventually the removal of price controls and protectionist policies.²⁷

2001 marked a major year for the Chinese economy in joining the World Trade Organization, a decision that added to its movement towards additional opening-up to the world, and from this point, saw major growth in sectors including agriculture, manufacturing, commercial services, and merchandise trade.²⁸ By 2011, China had become the number one trading country to many other powerful nations including Australia, Chile, Japan, South Korea, Hong

²⁵ Eisenman, Joshua. “Analysis | What We Really Know about China's Reform and Opening Up.” *The Washington Post*, WP Company, 7 Dec. 2021, <https://www.washingtonpost.com/news/monkey-cage/wp/2018/11/15/what-we-really-know-about-chinas-reform-and-opening-up/>.

²⁶ Ibid

²⁷ Ibid

²⁸ “China in the WTO: Past, Present and Future.” *WTO.org*, Dec. 2011, https://www.wto.org/english/thewto_e/acc_e/s7lu_e.pdf.

Kong, Malaysia, Russia, Brazil, South Africa, and Saudi Arabia.²⁹ With this additional globalization effort, the world saw many foreign brands enter the Chinese market, including that of Uniqlo in 2002, which became the first foreign fashion brand to open its stores in mainland China. This attempt to change the Chinese economy increased income per capita, and created an eventual unprecedented annual GDP growth averaging over 9% from 1989 to 2022,³⁰ allowing China to outdo its Japanese neighbor and currently become the second-largest economy in the world.

Growth of Consumption and the Rise of the Chinese Middle Class

In conjunction with many external developments arising as a result of policy changes, stemming from the beginning of the economic reform in 1978, many domestic developments were created as well, including a Chinese middle class that had never been seen before. This middle class was developed largely in part by the communist party's encouragement of entrepreneurs to create businesses that could now be privatized (as many businesses had been state-run before) and also the eventual privatization of many government businesses. Price-lifting also gave room for supply and demand to match that of the larger portion of society and eventually developed an economy that civilians could actually be a part of, in that these policy changes allowed the masses to participate in business and consume at a rate never seen before. Over the course of the next two

²⁹ Ibid

³⁰ *China GDP annual growth RATE2022 data - 2023 forecast - 1989-2021 historical*. Trading Economics. (n.d.). Retrieved April 22, 2022, from <https://tradingeconomics.com/china/gdp-growth-annual>

decades, starting from 1978, Chinese consumption became the largest portion of China's newly increasing GDP, consumption contributing to 63.9% of China's overall GDP by 2000.³¹ This increase in consumption came along with a growing middle class that from the time China joined the WTO in 2001, went from around 39.1 million people, to about 707 million people in 2018.³² This consumption growth, as a result of newly increasing household incomes, transformed the Chinese market from what we used to know as a labor-intensive export model, to the current consumer driven economy that we see today. More importantly, the opening of economic barriers to foreign countries and strengthening of economic ties to other countries, such as Japan, encouraged the movement from a nationalist consumer, to a global one, in post-80s children, which will be investigated further in the third chapter. It is also important to note that this exponential rise in Chinese people belonging to the middle class, and the development of a consumer-driven economy, followed the same timeline that Uniqlo began developing its presence in China, starting from its first Shanghai store in 2002, to its now 832 stores across the mainland.

Japanese Contributions to the Chinese Market

From the beginnings of the Chinese Economic Reform, Japan has been involved in the development of the new Chinese market. From 1979, just a year after the Reform

³¹ *How important is consumption to China's economy?* South China Morning Post. (2021, October 30). Retrieved April 22, 2022, from <https://www.scmp.com/economy/china-economy/article/3154119/china-consumption-how-important-it-worlds-no-2-economy>

³² Batarags, L. (2021, December 6). *China's middle class is starting to look a lot like America's, and that's not a good thing.* Business Insider. Retrieved April 22, 2022, from <https://www.businessinsider.com/china-middle-class-starting-to-look-like-americas-2021-12>

began, Japan has contributed over \$32.4 billion (1979-2018) to the development of Chinese infrastructure, technical compliance, education, in the form of loans and grants, making it China's third largest foreign country investor.³³ From a Japanese perspective, this investment over time, and initial involvement in the market as soon as it opened up, has made China Japan's largest trading partner country. Since the time Japan entered the market in 1979, the amount of trade between the two countries has increased from \$1 billion to \$317 billion in 2018, comprising more than 20 percent of Japan's total trade.³⁴ In terms of exports, China was Japan's largest receiver of about \$163.6 billion worth of Japanese goods in 2020 alone.³⁵

A Brief History of Uniqlo

The company which we know now as Uniqlo, debuted in May of 1984 as a unisex clothing store under the textile manufacturing parent company Ogori Shoji, which was established in 1949.³⁶ The name of the new brand came as a contraction of the words "Unique Clothing Warehouse" with its first store opening in Hiroshima, and eventually growing to an additional 100 stores by 1994.³⁷ In 1997, Uniqlo adopted a turning point

³³ Singh, A. (2021, January 2). *Japan-China economic ties flourishing*. The Sunday Guardian Live. Retrieved April 22, 2022, from <https://www.sundayguardianlive.com/news/japan-china-economic-ties-flourishing#:~:text=Trade%20has%20increased%20from%20%241,at%20the%20end%20of%202018>.

³⁴ Ibid

³⁵ Workman, D. (n.d.). *Japan's Top Trading Partners*. World's Top Exports. Retrieved April 22, 2022, from <https://www.worldstopexports.com/japans-top-import-partners/>

³⁶ Lamare, A. (2018, August 17). A brief history of uniqlo, the clothing company that's changing everything. The Business of Business. Retrieved April 22, 2022, from <https://www.businessofbusiness.com/articles/history-of-uniqlo/>

³⁷ Ibid

strategy that focused on creating a private label, fully manufacturing its own clothing that would only be sold in its own stores, which would become their defining business strategy for the next few decades.³⁸ Its opening of the Harajuku location in 1998, its first urban location, proved to create a fast-fashion fever that grew the company's popularity throughout major Japanese cities, eventually leading to a new turning point for the company in 2001, when they saw their highest profits yet and eventually expanded to over 500 stores in Japan.³⁹

Uniqlo's Expansion into China

In 2002, Uniqlo broke beyond its domestic barriers and made its first overseas expansion, opening its first Shanghai location, alongside other stores opening in London that same year. This new internationalism eventually led to Uniqlo breaking away from its parent company and establishing its own, under the new name "Fast Retailing Apparel" in China, further adding to its developed "fast-fashion" persona. Its growing global influence and initial success in China after 2002 eventually led to Uniqlo becoming one of the top apparel brands in the world, when it reached annual sales of \$10 billion by 2007.⁴⁰ From this point in the historical timeline, there is now enough historical context to understand the strategies that will be discussed in Chapter 3. The chapter will investigate Uniqlo's success after its initial entering of the Chinese market in 2002.

³⁸ Ibid

³⁹ Ibid

⁴⁰ Fast Retailing Co. (2007, December 31). Fast Retailing Annual Report 2007. Yamaguchi.

CHAPTER 3

The Consumer and the Strategies

Part 1: The Consumer

This first part of the chapter will aim to help us understand the relationship between the newly developed Chinese economy and its influence on the Chinese consumer we know today. These characteristics of both the Chinese economy and consumer will allow us to observe the relevance of the Uniqlo's strategies in China, relative to this new consumer group.

Growth of GDP per capita and Chinese Household Income

Over the past 20 years, the GDP per capita in China has increased at an extremely rapid rate. The GDP per capita of China in the year 2000 was approximately \$959.37,⁴¹ *the same year China joined the WTO*, and multiplied over ten times to \$10430.73 by year 2020⁴². While GDP can be a great indicator of a country's standard of living, the growth in personal income of Chinese consumers has also increased at a rapid pace, and may be an even more important indicator.

⁴¹ *China GDP per CAPITA 2021 data - 2022 forecast - 1960-2020 historical - chart - news*. China GDP per capita - 2021 Data - 2022 Forecast - 1960-2020 Historical - Chart - News. (n.d.). Retrieved April 22, 2022, from <https://tradingeconomics.com/china/gdp-per-capita>

⁴² Ibid

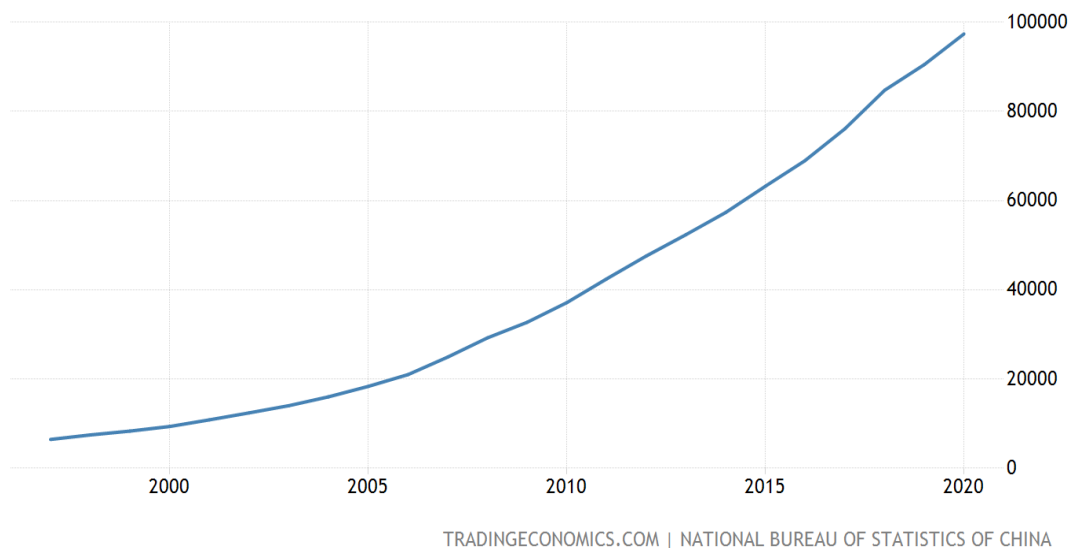


Figure 1: Average Income of Chinese Citizens⁴³

For reference, the income displayed in Figure 1 is Chinese Yuan (1 Yuan = about .16 USD (03/22)). The graph shows that in the year 2000, the average annual income was about 9371 Yuan (about \$1478.13), and steeply grew over the course of 20 years to 97379 Yuan (about \$15,360),⁴⁴ also over a multiplication factor of ten. While this is an average, and accounts for outliers (those in the one percent for example), as a whole, the average income per individual moved from nearly impoverished to the lower-middle class range of income.

Changing Age Demographic of China

⁴³ *China average yearly WAGES2021 data - 2022 forecast - 1952-2020 historical - chart.* China Average Yearly Wages - 2021 Data - 2022 Forecast - 1952-2020 Historical - Chart. (n.d.). Retrieved April 22, 2022, from <https://tradingeconomics.com/china/wages>

⁴⁴ Ibid

Economic changes that have developed over the past 40 years have created social changes in China, including that of the power of the youth. McKinsey and Company defines this avid purchasing group as those born after the Economic Reform of China, or 1978, and calls them “Generation 2”.⁴⁵ This generation has only ever experienced the increasing economic opportunity that China observed after Deng Xiaoping’s new economic policies, unlike the previous generations that had experienced decades of widespread poverty. Because of this, “Generation 2” has a much easier time making purchases, and has seen an increasing household income as the years go by. As of 2021, Chinese consumers under 40 years old are responsible for 79 percent of all luxury goods purchases in China, and are projected to make up 50 percent of all luxury goods consumers in the world by 2025.⁴⁶ While Uniqlo’s products are not exactly luxury goods, fashionable apparel is often grouped into the luxury category because of its shared pattern in increased consumption as income increases, as opposed to the consumer staples industry. It is important to understand this generational difference as a core to the overall composition of Chinese consumers, in conjunction with the rising middle class that is responsible for the highest amount of consumption in China.

Having understood the consumption that the “Post-80s” age bracket has contributed to the consumer discretionary industry, and the Chinese market as a whole, it

⁴⁵ Barton, D., Chen, Y., & Jin, A. (2018, February 14). *Mapping China's middle class*. McKinsey & Company. Retrieved April 22, 2022, from <https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class>

⁴⁶ Dychtwald, Z. (2021, July 1). *Understanding China's young consumers*. Harvard Business Review. Retrieved April 22, 2022, from <https://hbr.org/2021/06/understanding-chinas-young-consumers>

is even more important to observe their presence relative to the entire Chinese population.

Refer to the chart below:

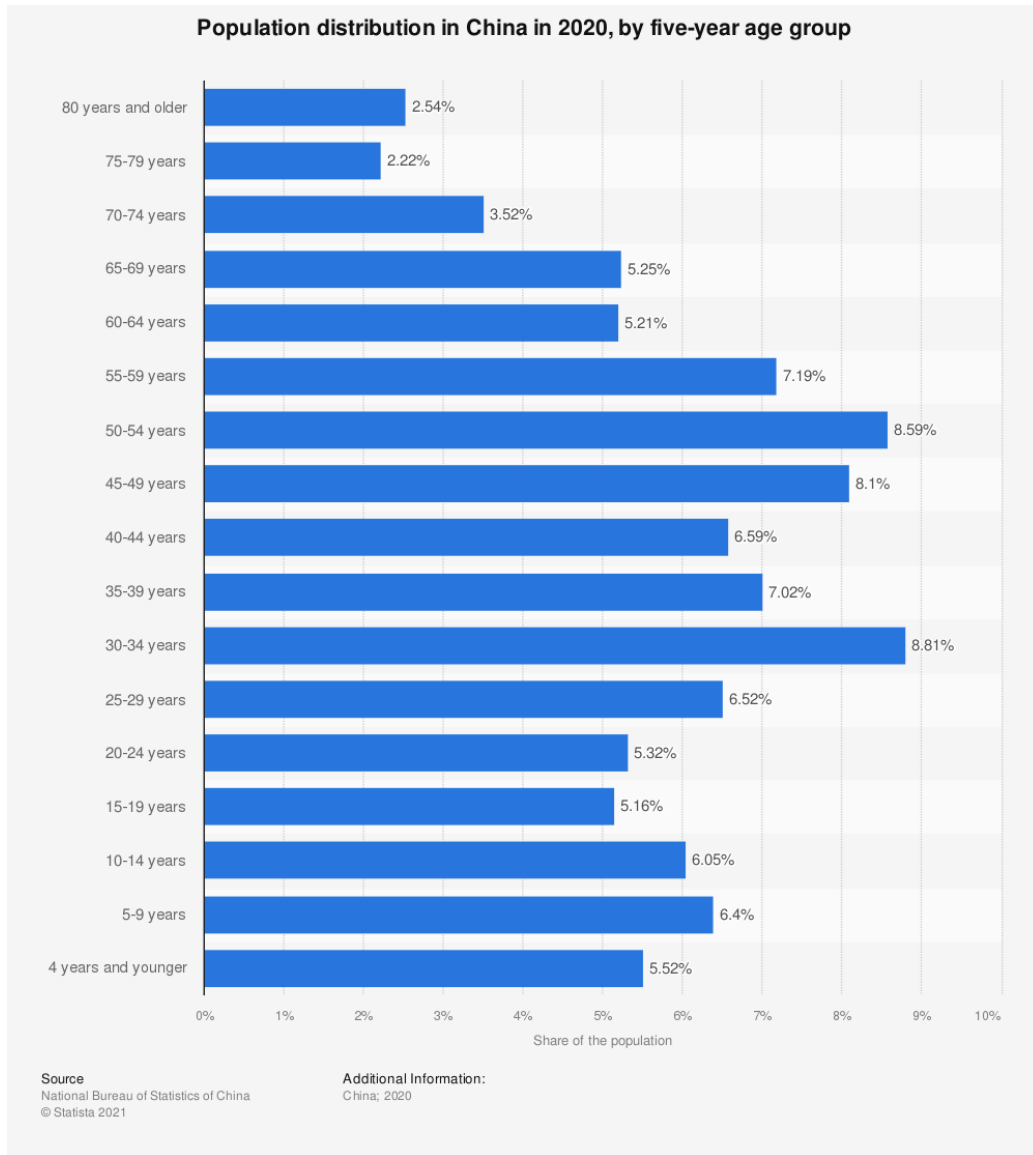


Figure 2: Population distribution in China in 2020, by five-year age group

If we consider the Chinese population in 2020, we can see that those born after the Economic Reform composed over 57 percent of the entire population.⁴⁷ By selecting this generation as a target audience, a business is able to access the majority of the Chinese population.

Urbanization

The growth in Chinese urbanization is another aspect that is important in understanding the contemporary Chinese consumer. Urbanization can be defined as the shift in population from rural areas to urban centers, with certain social impacts that arise from this change.

⁴⁷ National Bureau of Statistics of China. (October 9, 2021). Population distribution in China in 2020, by five-year age group [Graph]. In *Statista*. Retrieved April 11, 2022, from <https://www.statista.com/statistics/1101677/population-distribution-by-detailed-age-group-in-china/>

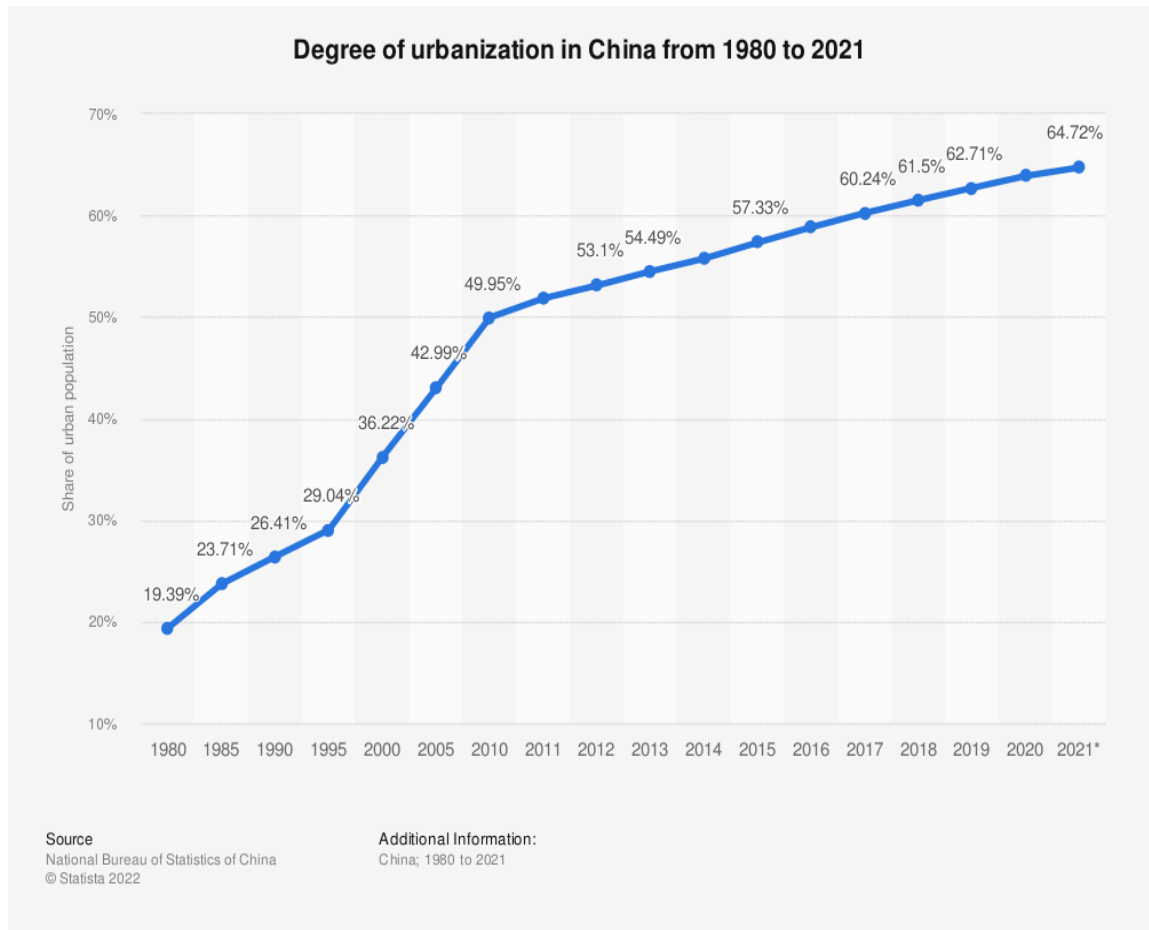


Figure 3: Degree of Urbanization in China from 1980 to 2021⁴⁸

If we look at the chart above, urbanization in China has increased rapidly over the course of the past 4 decades. Starting from 1980, *just after the launch of the Economic Reform of China*, the amount of Chinese people living in cities increased from just under 20 percent, to nearly 65 percent,⁴⁹ more than tripling in size. Even more recently, China developed what is called the “National New Urbanization Plan” in 2014, which aimed to

⁴⁸ National Bureau of Statistics of China. (February 28, 2022). Degree of Urbanization in China from 1980 to 2021 [Graph]. In *Statista*. Retrieved April 11, 2022, from <https://www.statista.com/statistics/270162/urbanization-in-china/>

⁴⁹ Ibid

make urban centers more sustainable, with higher standards of living through people-orientation, lower carbon waste, and a more optimized layout.⁵⁰ One example of this plan being put into action can currently be observed in Chengdu, that is “[converting] one-third of its urban area into green space,” while also “building a new large technology and manufacturing hub in its eastern part to expedite integration with Chongqing”.⁵¹ By doing so, Chengdu aims to create a larger network of urban connectivity while also increasing the standard of living, in the hopes of growing its overall urbanization into the city. As of last year, China has 93 cities with a population over one million people, with the plan to develop 19 city clusters among these urban centers.⁵² This rate of urbanization has contributed to an urban-centric consumer group in China, which is important in understanding the successful placement of business when entering the Chinese market, in order to reach these consumers.

Location of Residence of China’s Middle Class

Alongside increasing urbanization of the entire Chinese population, the location of the Chinese middle class specifically is important to note. As of 2018, over 80 percent of the Chinese middle class was a part of the urban population of China.⁵³ From the time that China joined the WTO, the portion of the urban population of China that was

⁵⁰ Zholudeva, N. (2021, May 20). *China's new urbanization strategy and how mncs can benefit*. APCO Worldwide. Retrieved April 25, 2022, from <https://apcoworldwide.com/blog/chinas-new-urbanization-strategy-and-how-mnacs-can-benefit/>

⁵¹ Ibid

⁵² Ibid

⁵³ Sicular, T., Yang, X., & Gustafsson, B. (2021). The rise of China's Global Middle Class in international perspective. *SSRN Electronic Journal*, 2–10. <https://doi.org/10.2139/ssrn.3883807>

considered “middle class”, rose from a mere 1.45 percent to 40 percent. In contrast, the rural demographic has not progressed nearly as much, moving from 1 percent of the rural population being a part of the middle class in 2002, to only 4 percent in 2018.⁵⁴ This stark differentiation in class mobility experience based on location has resulted in companies’ strategies relying on middle-class consumption to target those in urban areas.

Social Media and Internet Technology

Another important characteristic of the Chinese consumer is the development of internet penetration by users as China entered the WTO in 2000. From 2000 to 2017, the rate of internet use among Chinese citizens went from 1.8 percent of the population to 54.3 percent.⁵⁵ Specific to urban residents, as of 2020, 76.4 percent of Chinese urban residents use the internet regularly, which in combination with new purchasing power of the Chinese population, observed in the new middle class with increasing disposable income, has created the world’s largest e-commerce market, with a market share of 53.4 percent globally, valued at \$2.1 trillion.⁵⁶

Regarding the Chinese middle class’s use of social media, a survey conducted in 2015 suggested that by this time, nearly 82 percent of those belonging to the middle class in China used the internet regularly, and found that most participants in the study relied

⁵⁴ Ibid

⁵⁵ *How well-off is China's middle class?* ChinaPower Project. (2021, September 30). Retrieved April 22, 2022, from <https://chinapower.csis.org/china-middle-class/>

⁵⁶ Ibid

on both the internet and social media for three specific tasks: acquiring new information and sharing knowledge, *shopping*, and social interaction.⁵⁷

Part 2: The Strategies

The second part of this chapter will analyze three specific marketing strategies that Uniqlo has used in China and determine why each has been successful thus far.

Strategy 1: WeChat

Over the past ten years, one catalyst to the spread of fashion trends in China has been the development of the mobile application WeChat. Developed by Tencent, one of the largest technology companies in China, two years after the popular free texting application “WhatsApp”, “WeChat” was released in 2011 as a holistic social media platform, providing free texting functions, e-commerce community, and online payment functions. If one goes to China today, it is impossible to not observe how this app has become a fully integral part of Chinese everyday life. No longer do people need to carry cash, or even credit cards with them. The app has can accomplish most daily tasks. It has been accepted by all major department stores, specialty stores, convenient stores, and even food stands. WeChat also has the capability to allow customers to use a QR code at the location of choice and pay over their phone directly to different vendors. WeChat has taken the position for the most popular social media platform in the country, with over

⁵⁷ Zholudeva, N. (2021, May 20). *China's new urbanization strategy and how mncs can benefit*. APCO Worldwide. Retrieved April 25, 2022, from <https://apcoworldwide.com/blog/chinas-new-urbanization-strategy-and-how-mncs-can-benefit/>

one-billion frequent users as of 2022.⁵⁹ similar to that of Facebook, WeChat provides the commercial platform for companies to advertise their products and services and configure certain products to certain interests of individual users. Even more so than Facebook, however, because users are considerably more reliant on WeChat (compared to their American counterparts) to complete many tasks in their everyday lives, it is easy to see how these advertisements can be even more effective every time a user pulls out their phone to pay for food, give money to a friend, make a post, use a search engine, etc. As a result, any successful company in China, just like the Chinese people, are heavily reliant on WeChat as well, including Uniqlo.

Age Groups of WeChat Users and Growth of WeChat Users. It is imperative to consider the age demographics of WeChat users when considering the audience of Uniqlo.

⁵⁹ Tencent. (November 10, 2021). Number of monthly active WeChat users from 2nd quarter 2011 to 3rd quarter 2021 (in millions) [Graph]. In Statista. Retrieved March 22, 2022, from <https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/>

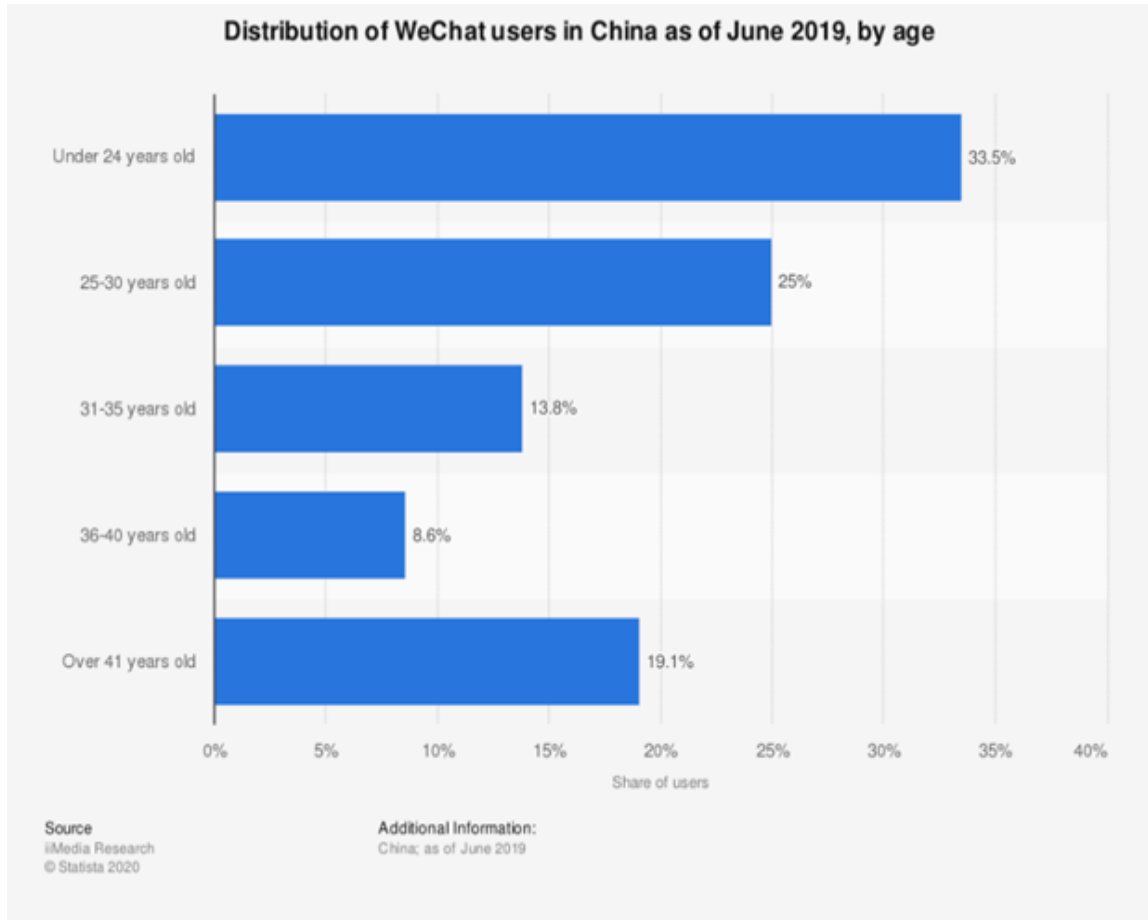


Figure 4: Distribution of WeChat users in China as of June 2019, by age⁶⁰

The graph above shows that just over 80 percent of WeChat users are below 40 years old.⁶¹ Considering the target market of Uniqlo, that being a younger audience that values trendier, modern-style clothing, we can see how WeChat and Uniqlo are almost perfectly complementary in terms of having nearly the same age target market.

⁶⁰ iiMedia Research. (February 12, 2020). Distribution of WeChat users in China as of June 2019, by age [Graph]. In Statista. Retrieved March 22, 2022, from <https://www.statista.com/statistics/387658/wechat-china-user-age/>

⁶¹ Ibid

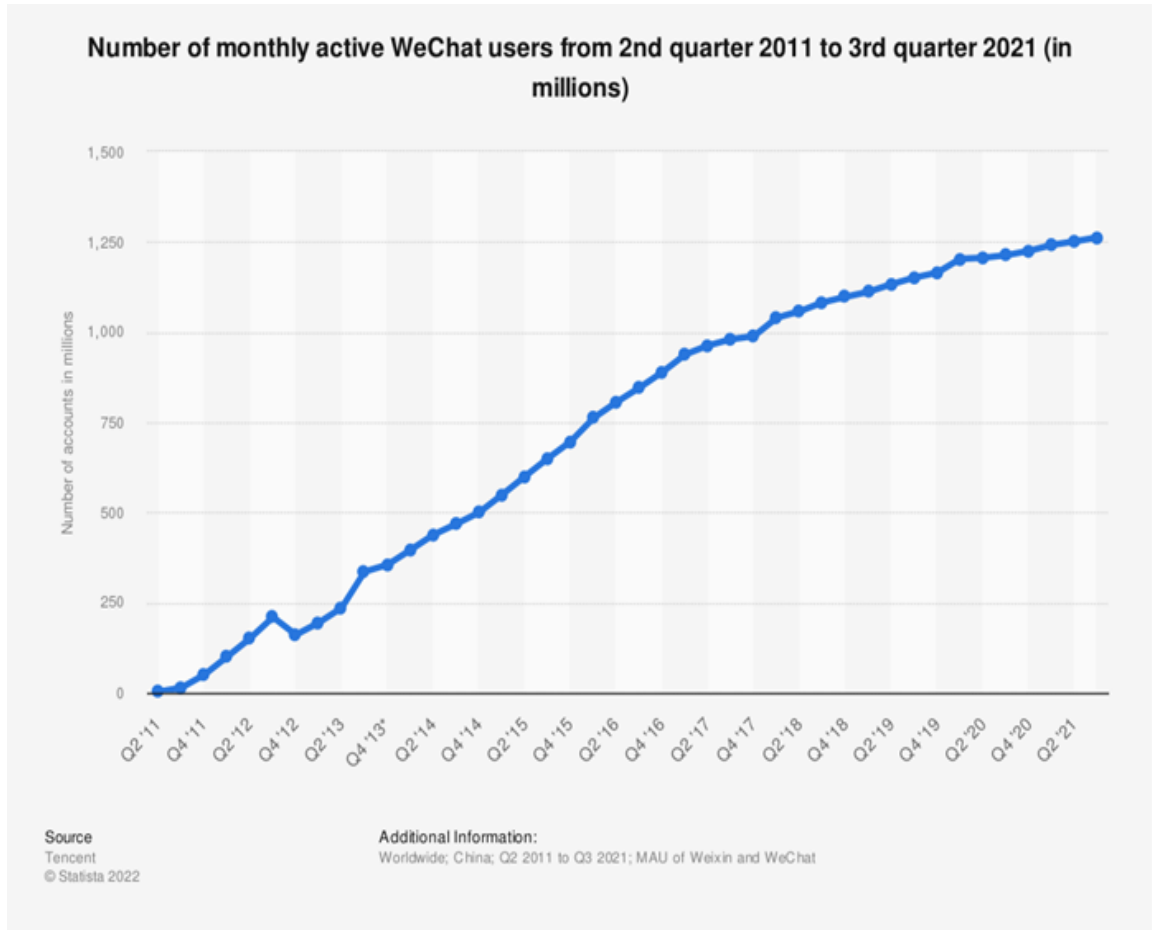


Figure 5: Number of monthly active WeChat users from 2nd quarter 2011 to 3rd quarter 2021⁶²

We can also see from the chart above that the number of active WeChat users, from the time of the app's conception, has continued to grow rapidly, and looks to continue to be growing in the future, with over 1.25 billion active users as of 2021.⁶³ For businesses like Uniqlo, this is an indicator of an opportune moment to tap into the Chinese consumer market.

⁶² Tencent. (November 10, 2021). Number of monthly active WeChat users from 2nd quarter 2011 to 3rd quarter 2021 (in millions) [Graph]. In Statista. Retrieved March 22, 2022, from <https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/>

⁶³ Ibid

Uniqlo and WeChat. By the year 2014, Uniqlo had already become the biggest fast-fashion retailer in China, and truly the rest of East Asia. Its offerings of affordable, strong quality products, which appealed to many generations (under 40), grew the company from its first location in Shanghai, to the hundreds of locations around China. However, the company's growth up to this point was just beginning. That same year, also the same year that WeChat released its "Pay" function, Uniqlo began its marketing campaign, "Style Your Life", that in just six months, more than doubled Uniqlo's WeChat followers from 400,000 to 1 million.⁶⁴ The design of this campaign began in the store location, where a customer could use a monitor to take a picture in a Uniqlo outfit that would immediately upload to the customer's WeChat account.⁶⁵ Then, the same customer could share this photo to their WeChat followers and get their opinions on the newly constructed outfit, with a reported one-third of Chinese customers that used the monitor posting a picture to their account.⁶⁶ Not only did this often encourage the customer to purchase the product, but also shared Uniqlo products to all of said customer's followers. During this campaign alone, the company stated that they saw a 30 percent growth in the sale of targeted items, and since then has seen over 2 million consistent followers on their WeChat page.⁶⁷ At the same time, the company's marketing

⁶⁴ *Uniqlo uses "Style your life" campaign to more than double their WeChat followers.* Luxion Media. (n.d.). Retrieved April 22, 2022, from <https://www.luxion.com.au/case-studies/uniqlo-uses-style-life-campaign-double-wechat-followers/>

⁶⁵ Ibid

⁶⁶ Ibid

⁶⁷ Ibid

budget as whole, upon entering the online market from its original sole brick-and-mortar presence, increased from 52.7 B Yen to 74.4 B Yen over the course of six years from 2013 to 2019 respectively.⁶⁸ Through its online campaigns utilizing WeChat as its main medium, alongside other marketing sources of course, Uniqlo's market share grew from .7 percent to 1.2 percent in just four years, from 2014 (the beginning of the WeChat campaign) to 2018.⁶⁹

When determining why this marketing strategy was successful, the most important factor to Uniqlo's success through their marketing campaign, using WeChat as a medium, is the age demographic of WeChat users. As shown in Figure 4, the majority of active WeChat users are under 41 years of age. According to McKinsey and Company, the amount of consumers belonging to the middle class that were born after 1980, also known as "Generation 2", was over 200 Million in 2012, and is soon to out-consume the American Baby Boomer generation that has historically fueled American consumption for decades.⁷⁰ In the same way that Baby Boomers experienced a growing economy after the Great Depression and the end of World War II, the Generation 2 that was born after the economic Reform started by Deng Xiao Ping in 1978 (refer to Chapter 2), saw a confidence in individual and family income that their parents had not, creating a simultaneous confidence in spending in leisure products spheres. This becomes

⁶⁸ *How uniqlo conquer china market using Wechat?* Soda. (2020, June 4). Retrieved April 22, 2022, from <https://sodasocial.co/2020/06/24/how-uniqlo-conquer-china-market-using-wechat/>

⁶⁹ Ibid

⁷⁰ Barton, D., Chen, Y., & Jin, A. (2018, February 14). *Mapping China's middle class*. McKinsey & Company. Retrieved April 22, 2022, from <https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class>

increasingly important for companies like Uniqlo that create products that don't appeal to necessity, but to individuality and appearance. So, we can see that Uniqlo was able to garner so much success in China, nearly doubling their market share in four years since their first marketing campaign through WeChat, because of WeChat's ability to reach the Generation 2 specifically.

Strategy 2: Product and Price

“Uniqlo isn't in the business of chasing trends. Its staples—versatile black pants, reliable oxfords, crisp cotton socks—are available month after month, year after year.”

- The Atlantic

Importance of Quality and Price for Chinese Consumers. Similar to a new emphasis in the quality of life discussed in China's new urbanization plan, the contemporary Chinese consumer also has placed more emphasis on the quality of the products they purchase. In Mintel's *The Chinese Consumer Report*, a 2019 study revealed that nearly 81 percent of Chinese consumers prioritized quality over price.⁷¹ Mintel goes further to suggest that this sentiment of quality has come as result of China's now stable economy, which has enough resources currently to move beyond solely price considerations. In a Nielsen study conducted the same year (2019), it was reported that 48 percent of Chinese consumers were willing to purchase premium apparel products, the

⁷¹ Inside Retail Asia. (2019, July 26). *Chinese consumers rate quality above price*. Inside Retail. Retrieved April 25, 2022, from <https://insideretail.asia/2019/07/26/chinese-consumers-rate-quality-above-price/#:~:text=A%20new%20report%20has%20shown,landscape%20over%20the%20last%20year>.

report claiming that “Chinese consumers are increasingly looking for innovative and high-quality products”.⁷²

At the same time, Chinese consumers still manage to consider price.

PricewaterhouseCoopers describes this consumer group as both “price sensitive but brand conscious”.⁷³ PwC suggests that this comes as a result of the cruciality of status appearance that is rooted in Chinese culture, with customers willing to pay more for higher quality goods, but open to lowering prices for the same amount of quality.⁷⁴ China’s growing economy has created competition among both domestic and foreign brands that are pushed to provide these quality products at an increasingly affordable price, to maintain competitive advantage. Uniqlo has thus been able to consider these consumer needs by providing both products known for their high-quality while also maintaining a price point affordable to their target audience.

Uniqlo Quality and Product. Uniqlo is known for its surplus of “basics”, which has actually given them a reputation as an anti-fast fashion brand. While other fast fashion brands focus on new seasons, with as many as 52 micro-seasons of clothing cycles in one year, Uniqlo sticks to the “classics” and focuses on the quality of each product. In fact, in 2019, Uniqlo had a total of 1,960 products offered in stores, compared

⁷² Nielsen. (2019, January 4). *61% of Chinese consumers choose premium products because of superior quality*. Nielsen. Retrieved April 25, 2022, from <https://www.nielsen.com/cn/en/insights/article/2019/61-percent-of-chinese-consumers-choose-premium-products-because-of-superior-quality/>

⁷³ PricewaterhouseCoopers. (n.d.). *Understanding Chinese Consumers*. PwC. Retrieved April 25, 2022, from <https://www.pwccn.com/en/issues/consumers.html#:~:text=Chinese%20consumers%20are%20price%20sensitive,a%20fondness%20of%20luxury%20brands.>

⁷⁴ Ibid.

to its main competitors, Zara which had 6,313 items, and H&M that had 17,715.⁷⁵ In terms of product offerings, they provide almost every clothing item within the realm of casual to business casual, but it's notable that all items typically are one color, most absent of any brand indicator, and of the most straight forward look. Almost all products are composed of sustainable goods; either cotton, or recycled polyesters.⁷⁶ Information about the resources used to make their clothing items are transparently provided both on the product itself (through a tag typically) and on Fast Retailing's website, with information on both the content composition and sourcing of resources used to make each product.

In the realm of clothing technology, Uniqlo has been creative in innovating certain unique technologies such as HEATTECH, a specialized insulating system used in many of their jackets and outerwear, and AIRism, a heat-wicking technology that can be found in their socks, underwear, and many of their tops and bottoms.⁷⁷ Not only that, in regards to fast-fashion, many regard Uniqlo for its product durability,⁷⁸ which makes the company stand out against its competitors Zara and H&M, which are not known for the same. For this reason, customers around the world look up to this brand for its simplicity in its quality of products and their complete closet offering, especially in China.

⁷⁵ *Uniqlo strategy - The differences with competitors H&M and Zara*. Lectra. (n.d.). Retrieved April 22, 2022, from <https://www.lectra.com/en/library/uniqlo-strategy-the-differences-with-competitors-hm-and-zara>

⁷⁶ Ibid

⁷⁷ White, G. B. (2019, March 12). *Why urban millennials love uniqlo*. The Atlantic. Retrieved April 22, 2022, from <https://www.theatlantic.com/magazine/archive/2019/04/uniqlo-millennials-gap/583219/>

⁷⁸ Ibid

As the Chinese middle class sprung into existence, with more money came more options in terms of choosing quality for more leisure goods like clothing. Brands like Uniqlo, that are clear in what resources are used to make their durable products, which use sustainable resources from sustainable locations, and are innovative, are attractive to a new middle class that has the expendable resources to consider quality.

Uniqlo's Price. As discussed earlier, Chinese consumers are attracted to quality, but even better yet, quality at an affordable price. Regarding Uniqlo's pricing strategy for their quality products, Uniqlo provides about 70 percent of their products for under \$33, with the most expensive item being about \$197, compared to its competitors' highest priced items exceeding \$500.⁷⁹ Now considering current social strata in China, as defined by annual income, we see that to a person living in poverty, or making less than 25,000 RMB (\$3,930.88), or less than \$10-15 a day, this would be a luxury that is often unavailable to this audience.⁸⁰ However, if we consider the middle class, that is defined by the Center for Strategic and International Studies as those spending between \$10 and \$50 a day,⁸¹ it is easy to see how the price range of Uniqlo almost exactly fits at the center of this social stratum, and is indicative of their target audience in China. By

⁷⁹ *Uniqlo strategy - The differences with competitors H&M and Zara.* Lectra. (n.d.). Retrieved April 22, 2022, from <https://www.lectra.com/en/library/uniqlo-strategy-the-differences-with-competitors-hm-and-zara>

⁸⁰ Farrell, D., Gersch, U. A., & Stephenson, E. (n.d.). *The Value of China's Emerging Middle Class.* McKinsey. Retrieved April 23, 2022, from <https://assets-prod.mckinsey.com/~media/McKinsey/Featured%20Insights/China/The%20value%20of%20emerging%20middle%20class%20in%20China/The-value-of-Chinas-emerging-middle-class.ashx>

⁸¹ Batarags, L. (2021, December 6). *China's middle class is starting to look a lot like America's, and that's not a good thing.* Business Insider. Retrieved April 22, 2022, from <https://www.businessinsider.com/china-middle-class-starting-to-look-like-americas-2021-12>

managing this specific price range, Uniqlo has perfectly targeted the spending capabilities of the middle-class consumer.

Uniqlo has been able to create this specific price range in part because of their location advantage. According to the Fast Retailing website, Uniqlo notes that most of their manufacturing factories are owned by third parties, located mostly in China, followed by South Asian countries. Considering the many Uniqlo stores that are located in China, the company is not only able to take advantage of lower labor costs that China provides, but also, specifically to its Chinese pricing strategy, Uniqlo able to lower costs on other manufacturing elements including transportation and storage by having their manufacturing locations very close to their Chinese stores. This has developed a price advantage for Uniqlo that has given the company more flexibility to appeal to the middle-class income bracket.

Strategy 3: Location and Store Expansion

Location is an important factor to the success of retail business in China. Shanghai, as the leading industrial and manufacturing center of the country,⁸² is often regarded as the paradise of consumers. Retailers often choose Shanghai (along with other cities regarded as the tier-one cities for retail business) for its market-directed economy,⁸³

⁸² Encyclopædia Britannica, inc. (n.d.). *Economy of Shanghai*. Encyclopædia Britannica. Retrieved April 25, 2022, from <https://www.britannica.com/place/Shanghai/Economy>

⁸³ Ibid.

that boasts a population over 28.5 million people, a GDP of \$680.31 billion (2021), and an average household income of \$12,288, more than double the nationwide average.⁸⁴

Uniqlo's Store Locations. Uniqlo's first brick-and-mortar store in China was opened in 2002, just after China entered the WTO, in Shanghai. It is notable that Shanghai is what is called a "tier 1" city, a label used exclusively for the most developed of Mainland Chinese cities, with as many as 5 tiers nationally. Not only does this label refer to the infrastructure of the city, but is also reflective of the overall income of individuals living in the city. If we look at the average per capita income of Shanghai in 2020, 72232 RMB, we can see a significant difference in income level even just from one tier below, Jilin province for example, with an average income of 40477 RMB that same year.⁸⁵ By entering the market through Shanghai specifically, that currently holds the highest average annual income of any Chinese city, Uniqlo was able to target an audience that would be the first in the country to attain a disposable income amount enough to begin consuming global fast-fashion.

In the latter half of 2002, the company saw enough success that it opened a second location in the same city. From this year on, Uniqlo would continue to open stores beginning in the most established of Tier 1 cities, such as Beijing and Shenzhen, and slowly make its way into the newest Tier 1 cities.⁸⁶ Of the cities in China that have at

⁸⁴ Cheng, E. (2022, April 18). *China's Covid Policy Locks down a city three times the size of New York*. CNBC. Retrieved April 25, 2022, from <https://www.cnbc.com/2022/04/17/shanghai-by-the-numbers-chinas-covid-lockdowns.html>

⁸⁵ *China city classifications and income*. Investor Insights. (n.d.). Retrieved April 22, 2022, from <https://www.investorinsights.asia/china-city-classifications-and-income-factsheet>

⁸⁶ *Greater china*. Greater China | FAST RETAILING CO., LTD. (n.d.). Retrieved April 22, 2022, from <https://www.fastretailing.com/eng/group/strategy/greaterchina.html#01>

least one of the current 836 Chinese Uniqlo locations, that being Beijing, Guangzhou, Chongqing, Chengdu, Nanjing, Ningbo, Shanghai, Shenzhen, Shijiazhuang, Tianjin and Xi'an,⁸⁷ all of them are either a part of the traditional or the new Tier 1 cities.⁸⁸

Global Flagship Stores. Alongside the placement of the Uniqlo's standard stores, the locations of the company's global flagship stores also play an important role in the location strategy. A flagship store, in short, is a representative store that showcases the entirety of the company's offerings to the market, often much larger than that of a regular location with many special events, free items, and creative exhibits and architectural designs. Take Uniqlo's Shanghai West Nanjing Road Global Flagship store for example, that boasts a 3,300 square meter (35,520.9 square feet) building, with three floors and an innovative rotating glass case of mannequins displaying Uniqlo's newest collections.⁸⁹ Uniqlo currently has three global flagship locations, two of which are in Shanghai, and the other in Beijing.⁹⁰ Again, considering the average income of individuals residing in each of these two cities, we see that they are actually the highest of any city in China, with Shanghai being the highest, and Beijing coming in second. We can see that by placing their largest Chinese stores in these two cities, they have exposed themselves to the largest consumer market in China.

⁸⁷ Ibid

⁸⁸ *China city classifications and income.* Investor Insights. (n.d.). Retrieved April 22, 2022, from <https://www.investorinsights.asia/china-city-classifications-and-income-factsheet>

⁸⁹ *Greater china.* Greater China | FAST RETAILING CO., LTD. (n.d.). Retrieved April 22, 2022, from <https://www.fastretailing.com/eng/group/strategy/greaterchina.html#01>

⁹⁰ Ibid

CHAPTER 4

The Takeaways

This chapter will aim to ascertain implications from the investigation that should be considered and conclusions that may be applied to other foreign businesses that are considering entering the Chinese market.

The Increasing Importance of the New Middle Class and Younger Generation

Uniqlo's success in China can easily be attributed to its ability to reach the new middle class and the younger generation of China, and considering that 55 percent of their international revenue comes from China,⁹¹ we can conclude that this social stratum and age group are partially responsible for the company's global success as a whole. Similar to some of the most popular foreign companies that have seen success in China, such as Nike, Adidas, KFC, etc., Uniqlo is largely and increasingly dependent on the new middle class, that importantly continues to grow at a rapid pace, and has ascertained enough income to have a choice in what they buy, and even demand certain product qualities from big name companies. It is speculated that by 2030, the Chinese middle class and

⁹¹ *Results Summary*. FAST RETAILING CO., LTD. (2022, April 14). Retrieved April 25, 2022, from <https://www.fastretailing.com/eng/ir/financial/summary.html#:~:text=The%20operating%20profit%20generated%20by,of%20the%20segment's%20operating%20profit.>

higher will reach the size of 400 million households,⁹² more than the entire population of the United States. It can also be concluded that as the class continues to grow in numbers, so will its global market power and transformative capabilities. McKinsey and Company analysts believe that “upper-middle brackets are likely to drive the lion’s share of growth in China over the next decade” and that “[by] 2030, 60 percent of urban consumption is projected to be driven by upper- middle-income consumers” with those born after 1980 projected to account for 40 percent of the entire country’s consumption.⁹³ For companies similar to Uniqlo, in the consumer discretionary industry, it is imperative to note that China is overrepresented in this industry’s consumption compared to other industry sectors, relative to other countries, and accounts for a larger portion of global fashion sales relative to its overall GDP.

Growth of Digitalization

For any company that attempts to appeal to Chinese consumers for their goods, it is imperative to implement online platform accessibility to truly take advantage of this digital society. This case has shown that one of Uniqlo’s most successful marketing strategies was produced through the use of the digital platform, “WeChat”- a strategy which over the course of four years almost doubled Uniqlo’s entire market share. China as an entire country is open to new digital innovation that can be incorporated in their

⁹² Zipser, D., Seong, J., & Woetzel, J. (2021, November 11). *Five consumer trends shaping the next decade of growth in China: Greater China*. McKinsey & Company. Retrieved April 22, 2022, from <https://www.mckinsey.com/cn/our-insights/our-insights/five-consumer-trends-shaping-the-next-decade-of-growth-in-china#:~:text=China%20is%20estimated%20to%20be,according%20to%20our%20baseline%20scenario.>

⁹³ Ibid

everyday lives, even their senior population. In 2020 alone, just over the course of nine months, internet users over the age of 60 grew from 6 percent of all Chinese users to 11 percent, and is projected to increase in the future, with analysts projecting that “at least two-thirds of [Chinese] seniors could be online by 2030, up from around 40 percent today”.⁹⁴ Currently, almost 30 percent of the Chinese “Gen Z” spend more than 6 hours a day on their phone, and just in the past 5 years (from the end of 2021), China’s purchases of goods digitally have grown from a range of 20 percent to 70 percent each year,⁹⁵ with more and more shoppers looking towards e-commerce to make everyday purchases. As of 2022, more than 70 percent of Chinese consumers use both digital platforms and brick-and-mortar locations to purchase goods,⁹⁶ displaying the importance of reaching the Chinese consumer digitally, even if they do shop at physical locations. For any company that is attempting to appeal to the masses of China for consumption of their goods, it is imperative to implement online platform accessibility to truly take full competitive advantage in the country.

Urbanization

The rapid pace of urbanization experienced in China within the past 20 years is a strong indicator of what the future of Chinese consumption will look like. Currently, the top 30 urban centers (in terms of population) house more than 25 percent of China’s entire population, and are responsible for almost 50 percent of all consumption in China,

⁹⁴ Ibid

⁹⁵ Ibid

⁹⁶ Ibid

with even higher percentages of total consumer discretionary consumption being attributed to these locations.⁹⁷ Analysts predict that this Chinese urban population will account for “about 90 percent of future consumption growth in China”.⁹⁸ In Uniqlo’s case, the urban locations of Tier 1 cities provide the company with a wealthier class that has a heavier desire for apparel, which will continue to expand even if Uniqlo never builds a single store more. When considering that these urban hubs only continue to grow in population size, and also in household wealth, creating a denser urban population that didn’t previously exist in China, it is imperative to determine on what side of the urban and rural partition one’s company fits in when entering the Chinese market.

Politics and Societal Relationships

Successful business in China requires a certain degree of political compliance in China, and also an understanding of geo-political tension between foreign countries and China. In Uniqlo’s case, given that its products are consumer discretionary items that are more appealing to the “Generation 2” or “Post 80’s” consumer (see Chapter 3), and also marketed their product through a platform that has a higher use rate among that younger generations (WeChat), Uniqlo successfully avoided socio-political tension that still persists amongst an older age group in China and the Japanese government. The investigation shows that despite a historically resentful perspective China has held towards Japan, the Post-80s Chinese consumer is global consumer, not a nationalist

⁹⁷ Zipser, D., Seong, J., & Woetzel, J. (2021, November 11). *Five consumer trends shaping the next decade of growth in China: Greater China*. McKinsey & Company. Retrieved April 22, 2022, from <https://www.mckinsey.com/cn/our-insights/our-insights/five-consumer-trends-shaping-the-next-decade-of-growth-in-china#:~:text=China%20is%20estimated%20to%20be,according%20to%20our%20baseline%20scenario.>

⁹⁸ Ibid

consumer. When entering the Chinese market, it is very important to consider the perspective that Chinese people hold towards a business' home-country, when offering a product that may be geared towards a specific demographic.

In regards to the Chinese government itself, it may require more strategic thinking, and political risks may become a company's biggest threat when entering the country. Recently, many western companies have given what are called "Xinjiang statements", in regard to the Chinese government's treatment of specific ethnic tribes in the Xinjiang region. Companies like Adidas are facing major backlash in the mainland for making statements denouncing the treatment the government has given the Uyghurs that reside in the region. Uniqlo has strategically made its statement that neither truly confirms nor denies their perspective on the issue, with an official company statement stating that "[they] are aware of reports raising serious concerns on the situation for Uighurs in Xinjiang, China. No Uniqlo product is manufactured in the Xinjiang region".⁹⁹ Uniqlo has avoided backlash by assuring the world that they have no involvement in the region itself, and thus have no say in the conflict. In this way, Uniqlo has not spoken against the actions of the Chinese government, maintaining the successful position in the country, while also assuring the rest of the world that they in no way have contributed to the conflict in the Xinjiang region. For businesses attempting to succeed in China, public relations that focus both on appealing to the Chinese government, and also the outside world, is imperative to contemporary Chinese market success.

⁹⁹ Associated Press. (2021, March 25). *Compilation of statements by H&M, Nike, Gap, Uniqlo, Adidas, Zara and new balance on sourcing Xinjiang Cotton*. Business & Human Rights Resource Centre. Retrieved April 22, 2022, from <https://www.business-humanrights.org/de/neuste-meldungen/heres-what-foreign-brands-have-to-say-about-xinjiang/>

Consumerism Trends and Looking into the Future

As consumers' individual household incomes continue to increase in the future, with an estimated 1.2 billion Chinese people projected to rise in income level by 2030,¹⁰⁰ consumers will have more disposable income to spend, and at the same time, to consider the quality and innovation of any given product more than in the past. Foreign companies that are entering the Chinese market are relying on this continual rise in income to fuel increasing consumption from the Chinese market in the future. As this case shows, one of Uniqlo's main selling points is the company's ability to provide higher quality products for basic clothing, with an affordable price point that has attracted the middle class. In addition, Uniqlo is also able to provide innovative qualities, such as its unique clothing technologies (see Chapter 3), to the Chinese market through its product, making it more appealing to a both quality and price conscious consumer. This quality and innovation consideration will continually force both new and already established foreign companies in China to provide an increasing quality higher than that of its competitors, while also developing new product technologies that make their products stand out. Companies that want to succeed in China's market need to make heavy and continual efforts into development research, in order to consistently improve their product, lest the market find a new product as a replacement.

¹⁰⁰ Zipser, D., Seong, J., & Woetzel, J. (2021, November 11). *Five consumer trends shaping the next decade of growth in China: Greater China*. McKinsey & Company. Retrieved April 22, 2022, from <https://www.mckinsey.com/cn/our-insights/our-insights/five-consumer-trends-shaping-the-next-decade-of-growth-in-china#:~:text=China%20is%20estimated%20to%20be,according%20to%20our%20baseline%20scenario.>

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