

Fashion and apparel

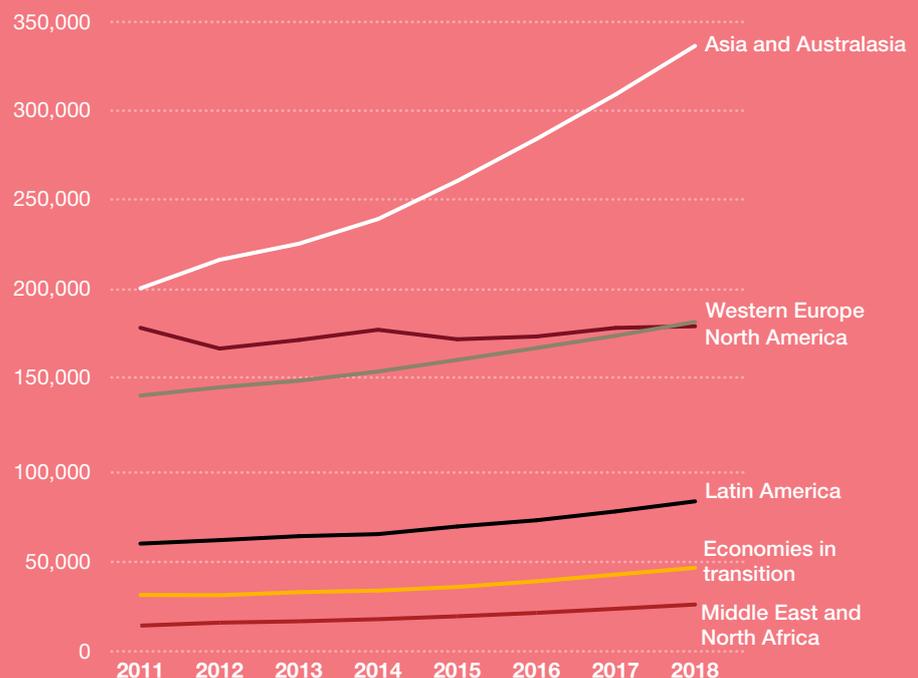
Key findings

- Fast fashion houses are expanding aggressively across Asia with average expenditure on clothing set to rise by almost 10% per year.
- By 2018 market demand for clothing in the region is set to reach almost US\$340 billion in nominal US dollar terms.
- By 2018 China will account for almost one-third of regional demand for clothing.



The Asian clothing and apparel sector is expected to grow rapidly over the next five years. Annual average expenditure growth on clothing and footwear, at 9.5%,⁵¹ will comfortably outstrip that of any other region as rising incomes lead more Asian households towards discretionary purchases. As more households move into middle class income brackets, consumer complexity will increase and fashion will form a sizeable part of the identity of an increasingly sophisticated Asian consumer base. Demographics will help too. The fact that India and China accounted for a combined population of 2.6 billion people in 2013 (37% of the world's population⁵²) means that the overall market size for clothing is also larger than that of any other region. Consumer expenditure on clothing and footwear in Asia is expected to reach almost US\$920 billion by 2018, compared to an estimated US\$625 billion in 2014.⁵³ The Chinese market will account for over US\$500 billion of this total by 2018, equivalent to those of Western Europe or North America.⁵⁴

Figure 7: Clothing: Market demand (nominal US\$ million)



Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Current demand growth seems to have become increasingly centred on fast fashion trends, with Asian consumers appearing to have an insatiable appetite for the quick and trendy brands that are proliferating. With incomes and aspirations rising, young affordable brands have rushed in to plug a gap for consumers who want to stay chic but cannot yet afford luxury items. The speed of turnaround on fast fashion collections also ensures high volume demand,

as storefronts move quickly from one trend to the next, tapping into the immediacy brought on by greater connectivity, notably through social media. Even as luxury firms have reported slower growth in markets such as China, fast fashion retail brands such as H&M, Gap, Zara and Uniqlo are outlining ambitious store opening plans to sit in a sweet spot that blurs the distinctions between mid-market apparel and low-end luxury.

Figure 8: Clothing market demand (nominal US\$ million)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	200,698	216,657	225,645	239,462	260,736	284,237	309,132	336,241
Australia	9,212	9,781	9,600	9,481	9,724	10,538	11,377	11,791
China	50,918	58,054	64,368	71,248	79,542	88,218	96,981	105,828
Hong Kong	44,908	48,317	51,326	53,302	56,079	57,620	60,788	63,487
India	7,182	7,025	7,220	7,873	9,217	10,932	12,955	15,031
Indonesia	8,690	9,127	9,367	9,504	11,145	14,144	16,061	20,036
Japan	28,231	28,543	23,717	23,195	23,507	24,010	24,676	25,450
Malaysia	3,581	3,850	4,135	4,374	5,005	5,722	6,367	6,967
New Zealand	2,185	2,348	2,480	2,617	2,465	2,459	2,547	2,606
Pakistan	3,121	2,967	3,078	3,287	3,792	4,239	4,521	4,884
Philippines	5,695	6,515	7,094	7,602	8,623	9,610	10,680	11,895
Singapore	3,227	3,422	3,560	4,126	4,622	5,206	5,802	6,306
South Korea	8,485	8,583	8,967	9,560	10,215	10,484	10,831	11,351
Taiwan	3,995	4,089	4,178	4,276	4,479	4,646	4,811	4,956
Thailand	6,579	7,137	7,473	7,279	7,756	8,488	9,349	10,440
Vietnam	14,687	16,899	19,083	21,738	24,566	27,919	31,386	35,214

Source: Economist Intelligence Unit

Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

As with all things in retail, China's gravitational pull is impossible to ignore. In 2014 Inditex, the global leader in apparel with 6,500 stores in 87 countries—largely through its Zara brand—was expected to open its 500th store in China. Meanwhile, as the US fashion retailer Gap closes stores in its domestic market, it is focusing on Japan, China and Hong Kong to propel growth (although a change in CEO may see that policy moderated). Gap currently has around 80 Chinese stores but opened 34 of those in 2013. It planned to open 30 more in 2014. The firm recently identified 50 cities in China with more than 5 million people to target for its physical store expansion, with a view to tripling Chinese revenue to US\$1 billion by 2016. Meanwhile, Fast Retailing, owner of the Uniqlo chain, plans to open 100 Chinese stores a year. There are already over 250 Chinese Uniqlo outlets and the plan is to expand this to 1,000 by 2020. Fast Retailing's ambitions in China are almost matched by H&M, currently the world's second largest clothing retailer, which planned to open 80-90 Chinese stores

in 2014. The firm intends to triple the number of stores it has on the Chinese mainland over the next three years.⁵⁵

With the exception of US brand Forever 21, which has just seven Chinese stores,⁵⁶ fast fashion expansion in China is notable because it has quickly moved beyond the coastal hubs and into faster growing smaller cities in the interior. These tier two, three and four cities offer much stronger potential for fast and affordable brands because they have a consumer base that is more aspirational (consumers in first and second-tier cities have higher incomes and the influence of luxury brands is stronger) and higher growth in consumer expenditure. British e-commerce player ASOS has also joined the fray, launching a dedicated Chinese-language site which will initially offer about 2,000 own-brand styles designed for the local market, with tailored delivery solutions and payment methods, local language customer care and a domestic distribution partner. UK-based Topshop is also expected to follow a 2014 online launch in mainland China, with pop-up outlets in up to 40 department stores in 2015.⁵⁷



A multitude of international fashion retailers are also looking to the larger Asian region. Fast Retailing is targeting aggressive expansion in South Korea, Taiwan and South-East Asia as well as China, and will bring in sister brands such as Comptoir des Cotonniers and Princesse Tam Tam. It also recently acquired the British fashion and homeware firm Cath Kidston, which enjoys popularity in Japan. Not to be outdone, H&M planned to open up to 195 new Asian stores outside China in 2014.⁵⁸

Despite the dominance of China, Japan will remain a cornerstone of the global fashion industry, with a number of internationally recognised designer names. In addition, Japanese street fashion continues to influence apparel and footwear trends in many other countries, one of the driving factors behind Uniqlo's aggressive expansion in the wider region. One niche growth area in Japan will be clothing and footwear for single working women in their 20s. Many such women in Japan still live with their parents, and so have high disposable incomes and are able to indulge their penchant for luxury items.

Like Japan, Hong Kong has developed a stable of local apparel brands, such as Giordano, Baleno, Bossini, Shanghai Tang, I.T and Esprit (some of which are now foreign-owned). These companies are also targeting mainland expansion, although not always successful. Esprit posted a loss in the 12 months to June 2013 after writing down the value of acquisitions in mainland China,⁵⁹ although the firm returned to profit in 2014. Conversely, foreign firms are also looking to Hong Kong as a means of tapping into mainland retail tourism, despite high rental costs. Topshop opened in Hong Kong in June 2014 as part of a strategy to establish flagship stores in key global cities.⁶⁰ J.Crew of the US opened two new stores in Hong Kong in 2014, their first in Asia, joining other recent US arrivals such as Tommy Bahama, Forever 21 and Abercrombie & Fitch.

Mainland Chinese shoppers will also help drive growth in Taiwan, where Uniqlo is the market leader in foreign apparel. Uniqlo had 43 Taiwanese outlets by the end of April 2014, with plans to grow this number to 100 by 2020. Inditex entered the market in

2011 and now has six Zara outlets in Taiwan.⁶¹ Rising prices and labour costs have undermined Taiwan's domestic production industry, with many leading garment manufacturers, including Makalot, shifting production abroad to restore margins.

One recipient of such investment is India, whose textile exports exceeded US\$30 billion in fiscal year 2013/14 (ends March). Spending on clothing in India, although large in aggregate and rising quickly, comes from a low base in per capita terms. Equally, the environment is competitive, with custom tailoring from raw cloth still prevalent.

However, clothing sales will rise rapidly, driven by a growing young population and greater awareness of Western fashion. Liberalisation of restrictions on foreign investment in single brand retail is helping, with H&M securing final approval to invest in India in 2013.⁶² In addition, it was reported in August 2014 that Inditex is planning to open Massimo Dutti stores in a joint venture with local retail group, Trent.⁶³

In-depth interview with

Masaaki Kanai,
President,
Ryohin Keikaku

MUJI is a Japan-based retailer selling a diverse range of products including clothes, household items and food through 385 stores in Japan and 257 in 24 other countries around the world. MUJI was launched in 1980 by Seiyu, a Japanese retail conglomerate. It is now part of Ryohin Keikaku, which spun off from Seiyu in 1989. MUJI products have the tagline “pleasant lifestyle”, with a design emphasis on simplicity and modesty – quintessential Japanese aesthetics.

What are the core principles behind MUJI?

MUJI—which means “unbranded”—was founded as the antithesis to the consumer society. The founder of the brand questioned the implications of such a society, including the devaluation of non-consumable items and a relentless fashion cycle that diverted consumers from buying what they really needed.

Some leading designers empathised with this view and formed a team with a mission to offer unbranded “good things” (*ryohin*) at reasonable prices. This meant cutting out excess in all processes, including design, manufacture, packaging, marketing, and so on. This corresponds with the aims of craftsmanship, in which through years of practice the craftsman arrives at essential forms, which are characterised by both their beauty and their high efficiency.

How are you communicating your brand values, especially in overseas markets?

Our branding is based on three components: gathering products “with no makeup on”, displaying them in stores with matching spatial qualities, and then explaining what they are. We’ve always focused on plain-spoken communication. Of course our product range, covering a wide spectrum from apparel to housing, plays a big role in expressing what we are about, and our values.

Being the antithesis of major consumer trends helps us in many ways. For instance, we have an initiative called the “Found MUJI” project, where we discover everyday artisanal or industrial items around the world that are simple and modest, and in so doing help preserve local traditions and identities. The related exhibitions and events have been well received in China and France, for instance.

The increasing maturity of markets and consumers worldwide is a tailwind for us, too. East Asia is hot for retailers and its consumers are increasingly sophisticated. They are better able to identify the real value of products, and are less easily influenced by branding or marketing. Our consumers in China, for instance, are more interested in enhancing the quality of everyday living, going beyond the type of lifestyle that used to put emphasis on branding.

I must also note that people whom you might call “creators” around the world tend to act as gateways of communication for us in each country that we operate. They tend to be a cultural group that responds well to our values.

Finally, we host competitions, asking people to design products for us. That is, instead of telling them what MUJI is about, we ask them to think and produce for MUJI. We find this is a better way to be understood.



What do you see as growth areas?

Housing is one area. With an ageing and shrinking population in Japan, the sector needs a paradigm shift in thinking and approach. We've just launched an initiative in Japan called "House Vision" that puts MUJI's "pleasant lifestyle" concept into practice in the housing space. In other countries in Asia too, we are beginning to see that there are huge unmet and hidden needs to improve the quality of living space, at reasonable prices.

Our food business is another area that is closely linked to the problems of population growth and energy, as well as food safety. We are promoting "*So-no-Shoku*", a food culture that puts MUJI's principles of minimalism and quality into practice, cutting out the excess in all aspects from production to processing and eating, unleashing food's essential qualities.

E-commerce is certainly a potential area of growth, too. In addition to our e-commerce site, we are building a platform that brings together people who are working on and interested in tackling a variety of social issues, ranging from abandonment of farm lands to regional revitalisation and sustainability. These are people who share our values. There is a link from the platform to our e-commerce site. We find this unique structure helps the volume of online sales.

What particular challenges are you facing and tackling?

Supply chain management is on our agenda. We have some catching up to do in implementing appropriate support systems to help our offices abroad. We've started with our non-brand strategy, and then we've worked to build the quality to win consumer confidence. We've also worked hard to achieve reasonable prices. Now the challenge is to secure matching systems to support our global operations.