Providing a rare assessment and insight into the Japanese sports market, Shuji Komatsu, Director of the Board, Goldwin, Japan, reviews the current role of functional textiles in the Japanese sports market and the expectations of their development in the future as well as discussing the country's retail market, changes in its economy and its distribution channel structure.

The Asian Perspective



The currency crisis in Asia, which started with the speculative sale of the Thai baht in July 1997, also affected the neighbouring economies of Indonesia, Malaysia, the Philippines, Hong Kong, and the Republic of Korea.

In the 1990s, funding and short-term capital from the United States and Japan was unable to find clients in the respective domestic markets. As the Asian countries aggressively liberalised their financial and capital markets, this external money headed towards investments in land and property to create an artificial 'briskness' and a bubble economy in Asia. When the bubble burst the short-term capital fled and Asia was in economic crisis. The strengthening rumour was that recovery would take many years.

Fortunately, however, most Asian governments were quick to react to the crisis and through a series of export-oriented measures were able to restore positive growth by late 1999. Despite the pain it caused, the economic crisis had the effect of realigning the Asian economies with those of the rest of the world.

On the other hand, Japan's internal economy has fared far less well since 1997. It hit rock bottom in April 1999, after the double blow of a hike in the sales tax rate and a chain of bank failures. There has been some signs of recovery in terms of GDP since then, driven primarily by increased production and equipment investment in the corporate sector, but nevertheless the country's unemployment rate still hovers between the 4.5 and 5 percent mark and personal consumption, that accounts for 60 percent of the GDP, remains flat. Staples, such as clothing and food, appear to be in a permanent state of decline whilst the buying trend for home computers and cellular phones is upward.

Against this background consumers have become very sensitive to price - a factor that in turn has boosted sales at the discount end of the market where so-called concept stores and suburban discount stores now hold sway. Department stores and super-markets have, in contrast, been unable to stem their declining sales. In July 2000 SOGO, a major department store group, went bankrupt with a debt of 1,870,000,000,000 yen (approximately US$15 billion) - the largest bankruptcy outside the financial sector.

Overview of Asian Economy

History of the real GDP growth and outlook to the future

	Results					Prospect	
	1995	1996	1997	1998	1999	2000	2001
NIEs (3)	7.3	6.2	5.5		7.6	7.9	6.2
Korea	8.9	6.8	5.0		10.7	8.8	6.4
Taiwan	6.4	6.1	6.7	4.6	5.7	6.9	6.4
Hong Kong	3.9	4.5	5.0		3.0	7.4	5.2
ASEAN (5)	8.2	6.9	3.9		3.2	5.7	5.3
Singapore	8.1	7.4	8.4	0.4	5.4	7.2	6.1
Thailand	8.8	5.3			4.2	5.6	5.1
Malaysia	9.4	8.6	7.3		5.6	8.5	6.3
Indonesia	8.2	7.8	4.9		0.3	4.2	4.9
Philippines	4.8	5.8	5.2		3.3	3.9	4.5
China	10.5	9.6	8.8	7.8	7.1	7.6	7.3
Total of ASIA	8.7	7.6	6.3		6.5	7.3	6.5

But there may now be some light at the end of the tunnel for the Japanese economy. In April, a new Cabinet was sworn in under the leadership of Prime Minister Junichiro Koizumi, and he has vowed to implement the reforms that the national economy needs - even if they have a negative impact on household economies in the short term. His first target is the bad debts of financial institutions. "No economic recovery is possible without structural reforms" is his watchword - a sentiment that appears to carry popular support.

In the national opinion poll that Asahi Newspaper Publishing conducted at the end of April, the Prime Minister was supported by 78 percent of respondents - the highest ever in Japanese history - despite the fact that most Japanese are aware that his policies will probably have a deflationary effect and bring out negative growth in the short term. The success or failure of the Koizumi Cabinet in executing his policy will play a big part in determining whether the Japanese economy and political structure can be made compatible with the global economy of the 21st century.

Change in the Japanese distribution channel structure

The structure of the distribution channel in Japan is changing against the economic background I have just described. Last year (2000), the sales ratios of outdoor sports products by type of store were as follows:

41% by specialty stores
27% by volume retailers
18% by brand manufacturer stores
14% by department stores for outdoor sportswear.

The specialty stores had the largest clientele, including middle aged and so-called 'silver-aged' trekkers and hikers. They also had the greatest number of mountaineers, accounting for the largest sales share, but who are also highly susceptible to upsets in the economy.

The volume retailers had increased their market share at the expense of the specialty stores, while the suburban chain stores attempted to emphasise outdoor sportswear and carry them as their main spring/summer items. Although the latter's market share increased, it is hard to forecast that they will sustain the same level of growth in view of their poor sell-out ratio. The department stores percentage is not high, but they can be expected to maintain existing market share by focusing on the middle-aged and senior customers. The brand manufacturer stores also increased their market share, having the advantage of being able to present their concepts direct to the consumers while they are fresh and new.

In summary, it can be seen that the outdoor sports market has not broken with the conventional distribution format and that, in contrast to the wider general goods sector, changes in the outdoor distribution channel structure were relatively small.

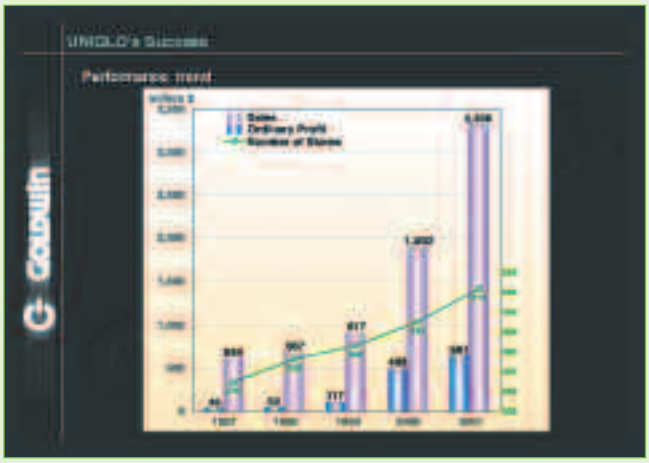
Overseas retailing methods - home market changes

Behind the big changes seen in the general distribution structure of the past few years are such factors as the general deregulation of industry, the negative growth experienced by large-scale retailers, and the turnaround in the fortunes of convenience stores - of which there are now too many fighting for market share.

These and other variables have forced distribution to remodel and reorientate itself around the needs of the consumer.

The distribution industry has been strongly influenced by foreign retailers such as Calfour from France, Toys-R-Us, GAP, REI from the US, and HMV. Wholesale clubs, similar to US-based Costco, outlet malls and shopping centres with an entertainment facility atmosphere are all being developed. We now have shopping malls, built in town style, offering enhanced levels of shopping pleasure and selling high value-added branded products at lower prices.





Rise in new style retail businesses

New Japanese companies have emerged as competition for the foreign retailers in a trend driven by the desire of the consumer for something different to the conventional department store and one which more closely matches their spending power in a stagnant economy.

Examples of these new value-for-money stores include: '100 Yen Shop Daiso', selling all they carry at 100 yen; 'Book Off' selling second-hand books, and 'Don Quixote' a discount store with a convenience store concept selling everything from household sundries to CDs and fashion apparel until late into the night. These retailers have - and are continuing to make - a great deal of profit in the depressed Japanese economy.

But low pricing is not the only reason for success. Their focus on the customer, their unique corporate philosophies and their excellent management techniques have also contributed along with outstanding corporate strength, excellent business models and systems.

Success of UNIQLO

One of the new retailers is the UNIQLO chain, a company that has evolved into a social phenomenon registering sales of 228.9 billion yen, with ordinary profit of 60.4 billion yen in its fiscal year ended August 2000. Its success has surprised and rocked the distribution industry in Japan.

To describe UNIQLO broadly: its price points are on par with - or below those of - H & M. Its merchandise has the look of GAP clothing while the store atmosphere can be described as a mix of GAP and Old Navy. It has arrived at its distinct corporate style through structural reforms based on the philosophy of "Keep on offering high quality and basic casual merchandise at the lowest prices in the market". Kicking off early with its global marketing, the company plans to open ten stores in London and other U.K. cities.

The essence of UNIQLO's competitiveness lies in its internal systems in which business models are continuously perfected. In very short order, it has managed to build a SPA business system comparable to that of GAP's and, by manufacturing merchandise in China or elsewhere, it has largely succeeded in eliminating the middleman's costs. UNIQLO merchandise is both manufactured and sold in large quantities. A case in point is the ten million fleece jackets sold by the company in one year, where one of fifty different colours is featured each week at the company's web-linked stores. UNIQLO also uses Weiden and Kennedy, the advertising agency behind Nike's campaign. This has brought a strong entertainment element to the company's advertising while contributing to strong brand recognition.

According to CEO Nagai, UNIQLO intends to enter the food retailing market using the same business models. There are also signs that it is to take its sports performance line upmarket, although the main focus to date has been on basic casual products such as fleece jackets and lightweight insulated nylon jackets.

The status quo of the sports apparel market

As stated, the Japanese sports market has, in general, failed to keep pace with the rapid changes that have occurred since 1997. Conventional sporting goods manufacturers, wholesalers, and retailers have shown negative growth between 10% and 30%, along with a decline in sales and profits.

In the 1997 financial year, domestic shipments of sporting goods totalled 1.42 trillion yen. This figure is expected to drop below 1.2 trillion yen in 2001. Major factors contributing to this decline include the sluggish economy since 1990 and in particular, the move of baby boomers and their children away from sporting activities.

By summarising this situation, the following trends can be seen:

a. Outdoor sports and snowboard wear markets slowing down after sharp growth.
b. Perennial decline of large-scale leisure industries as represented by golf and ski.
c. Chronic decrease in demand for athletic sports (baseball, soccer and tennis) due to the decreasing birth rate.
d. Accelerated saturation of sports market due to the crossover with casual wear.

The Olympic Games and World Cup soccer have a strong impact on the fashion and entertainment businesses. The excitement created by sports media coverage has caused the sportswear market to expand, and each era has created a different style. This has encouraged the public to purchase sportswear as fashion items; sportswear has inundated the market and, as a result, serious problems can be seen in the current sluggish sportswear business. The main problem is that existing manufacturers, wholesalers, and retailers have not been able to develop new sports styles to meet the changes between generations. We do not recognise that it is essential to utilise the functionality of sports-wear in our daily lives.

Generation shift and change in consumer sports styles

Changes in the tastes of succeeding generations have contributed to the continued decline in involvement in team and competitive sports. Baby boomer power, which became evident around 1970, has shifted to Generation Y over the past 30 years. The changes created in lifestyles, retail business activity, and managerial abilities are not always recognised, but without doing so it will be difficult for us to provide a lead in the future. The following specific example shows the influence of Generation Y on the markets of the past decade.

Extreme games are Californian-style sporting competitions. They began in 1995 and developed into mainstream sports around the world. They consist of surfing, skateboarding, snowboarding, in-line skating, BMX, MTB, and climbing, and each sport is enjoyed individually. The categories used to be independent and some existed as competitive sports. However, the U.S. television station ESPN2 markedly altered the flow of the era by structuring them in combination with a competitive element overall, and secured airtime around the world. In turn the programmes influenced the sports market and became the starting point for changes in sports apparel styles. Instead of the existing sporting goods manufacturers and brands, after 1990 new companies appeared and, together with large apparel companies, adopted this new sports genre. These new entrants carried the related flow to a whole new generation of sports styles. They began to change and expand the market.

To stay competitive in the future, it would seem that sports manufacturers would have to move to lifestyle businesses based on particular sports. They may even have to create separate business formats for conventional team sports, such as soccer and rugby, and for individual sports that became popular after 1995. Keeping this in mind, the business plan concept for an ageing society is possibly to create 'daily-use' demand among consumers who do not directly participate in sports. Examples of products might include sports shoes, daypacks, socks, and so on. Therefore we should approach the markets where functional sports items can be used in all scenarios.

The status quo of the Japanese outdoor sports business and its issues

The history of the outdoor market in Japan is relatively short. The trigger is believed to have been 'Outdoor' magazine that was first published in 1976 by Yamato Keikoku-sha, which also produced a mountaineering magazine as a specialty item. The 'outdoor' activity concept spread further in the 1980s with the publication of the outdoor leisure magazine 'Bepal'.

Goldwin began to sell The North Face products in Japan in 1979, almost at the same time as the creation of the outdoor market, when 'outdoor' in Japan was a special hobby for only a few people. Retailers specialising in mountain climbing equipment considered 'outdoor' different from their own business.

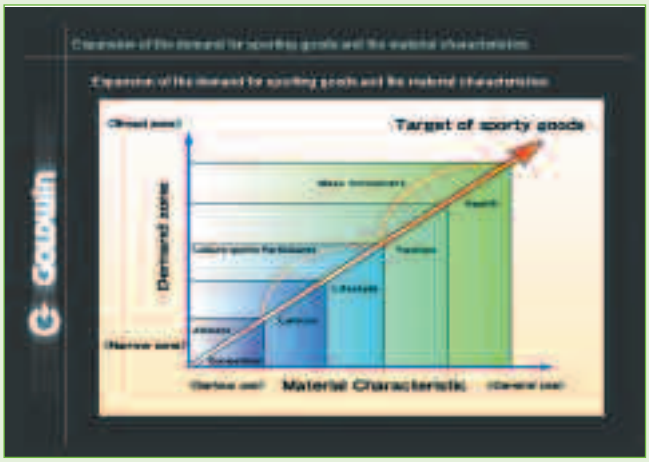
Between 1980 and 1990 'outdoor' gradually penetrated the market. Sport as personal activity, rather than sport as competition, began to attract public attention. Since 1990, 'Mountain Climbing Classes for Middle-Age and Senior Climbers', broadcast by NHK, has triggered widespread interest in mountain climbing among people in their 50s, 60s and even 70s, who began to climb as a means to maintain good health and to expand friendships. After the collapse of the bubble economy the popularity of automobile camping expanded because the image of 'low cost, no particular skill required, close to home and short timescale' sparked the interest of almost every generation. So Japan's outdoor business grew rapidly until around 1995, when a combination of insufficient campsite facilities, problems in the infrastructure, environmental and educational concerns and the lingering structural recession caused people to consider other leisure activities.

Young people in particular have moved away from outdoor fashions in recent years, resulting in a rapid decrease in the popularity of outdoor clothing as a daily fashion style. US companies such as L L Bean and Eddie Bauer have drastically revised their strategies. As outdoor business operators therefore, we should be aware of the following points to ensure future growth:

a. Need to recognise that there is no significant increase in new entries to middle-aged and senior mountain trekking sector.
b. Need to propose a new outdoor lifestyle for the baby boomer generation.
c. Need to create a handy outdoor lifestyle suitable for the ageing society
d. Need to create individual outdoor sports businesses fitting Generation Y.
e. Need to build SPA business to cope with the change of distribution format and its liquidation/integration.

The characteristics of functional materials and the direction of their development.

One of the themes that manufacturers must follow is the development of products that make people's lives more affluent and exciting. But before we establish concrete goals at the initial development stage, we must recognise certain basic factors when producing sportswear.





The functions expected from clothing in daily living and activities can be divided into two:

a. Functions to create and maintain physiological comfort in order to alleviate, avoid, or shield the wearer from changes in climatic conditions, over-exertion or physical shock. Additionally clothing should aid and support physical activity.
b. Functions to meet cultural, social, educational and ideological requirements or customs.

Health and culture make demands on sports clothing which are not always apparent in everyday life. For example warmth, moisture absorption, ventilation and durability are prime considerations for sportswear manufacturers, whose products and customers must be able to cope with abnormal body loadings, an excess of generated heat and perspiration, exposure to UVR - wind - and rain, and the possibility of coming into contact with physical hazards such as rock and running water.

We have found that the key concept in sportswear development is layering, that is the wearing of a range of clothing to suit the external environment, quality of exercise and the physical condition of the user. The most important element is the removal of perspiration, in that it controls temperature from inside the clothing and maintains a comfortable environment immediately around the wearer.

Generally speaking, textile manufacturers often explain product benefits through a relative evaluation based only on the function of the fabric. However, this type of evaluation is insufficient for garment manufacturers because we must evaluate the function of the material after comprehensively analysing various situations, including the environment, anticipated exercise and the overall clothing system. In addition we have to summarise and analyse the images that meet our targets from the physiological and cultural points of view (especially fashion), in order to undertake development. Based on the outcome of these analyses, we sell The North Face outdoor brand in the Japanese market.

The North Face Tekware

An innovative sportswear was launched in United States in 1994. Conventionally, sportswear meant daily casual wear centred on cotton materials, but The North Face launched sportswear using only functional materials. Tekware is completely different in concept from conventional sportswear. Compared with cotton, Tekware has many excellent features; it is light, warm, fast drying, protective, durable, compact, and easy to care for. Tekware can even be said to be an invention that has fundamentally overturned the standard concept of sportswear. The name TEKWARE is coined from TEK, meaning technology, and WARE (instead of wear), meaning tool. After its launch, the concept of this type of apparel spread among outdoor clothing and sportswear manufacturers around the world and changed the norm of the product. As a result, consumers can enjoy outdoor and sports activities more comfortably, and the scale of the industry has expanded. In short, this is the earliest example of the expansion of the business field of commercial material property through the use of functional materials for a general purpose.

In 1995, while developing functional underwear, which is the base of layering, we asked the question,' Why is the material for sports underwear in Japan always polypropylene or chlorofiber?'

The US market had already adopted polyester fibres in underwear, but our survey showed that the early consumption of functional underwear was limited to mountain climbers and yachtsmen, and that the distribution side did not feel it necessary to provide products better than the ones in the market just to satisfy the needs of consumers. This simple answer was restricting the potential in sports underwear for sports enthusiasts. Based on this fact, we established the idea that 'expanding the targets for functional underwear in daily living and for activities other than sports will expand business potential.'

We analysed the desire for physiological and cultural functions for possible underwear materials and the functional underwear industry overseas. As a result we discovered that DuPont's Thermastat was the best textile to expand the underwear market in Japan. We then established a project team as a strategic partner in the development of Thermastat functional underwear with the joint cooperation of the polyester division of DuPont Japan and a spinning company.

Market results have far exceeded our expectations and consumers have responded well to our products. Several other Japanese sporting goods manufacturers have actively entered the market, and even exclusive underwear manufacturers are considering the possibilities in these textiles. Functional materials are clearly the answer to many consumer demands. At the same time, functional materials should be considered as a seed to generate new desires.

The development of any particular functional fabric as a stimulus to the sluggish Japanese economy will cause it to change and expand its commercial potential as a textile for the wider general market. It cannot, and must not, remain the property of the sports and specialty industries. SAP chains such as UNIQLO and Gap, which sell casual wear as mass retailers, and the luxury brand Prada Sports are closely watching these functional materials. The potential will continue to expand, and we anticipate that competition between sports manufacturers will intensify.

Competition has always existed. Competition will create new services for consumers. The gap between manufacturers and retailers is growing narrower, and the role of distributors is being questioned. In this situation, it is extremely important to maintain and improve the true value of brands.

What can suppliers do in this situation? Suppliers have to be true strategic partners. Partners who can cooperate and support each other beyond conventional barriers in all fields, including the provision and application of business software such as SCM (supply chain management) and CRM (customer relations management) systems.

Forecast of the future of the sports business

What follows is a prediction based on Goldwin's recognition of the external environment and the assumption of creating an outdoor business strategy. I believe this is the framework that the sports apparel industry should consider as the prerequisite for its development.

a. Specialised sports business markets will shrink and several sporting goods manufacturers will be eliminated.
b. New market development will proceed with a projection that the demand for lifestyle merchandise will expand.
c. New market development will also be preceded by brands as creators of fashion trends.
d. The distribution format will change and diversify considerably through an aggressive push of the brand strategies targeted at the volume market.
e. Stronger measures will be taken to increase health-based business to cope with the ageing society.
f. Promotional budgets will be focussed on the individual sports targeted for the younger generation.
g. Guidance programs and support will be prepared to increase the long-term participation in sports activities.