Fast Retailing shares dive after lacklustre sales force price cuts

Uniqlo owner's decision deals further blow to Japan's fight against deflation

Japanese shoppers have refused to pay more for products from Fast Retailing's Uniqlo brand, prompting a reversal of pricing strategy — Yuriko Nakao/Bloomberg

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Shares in Fast Retailing — owner of the global Uniqlo brand — fell 13 per cent yesterday after lacklustre sales forced the Japanese group to cut prices in a blow to Prime Minister Shinzo Abe's fight against deflation.

Sales in Japan were hurt by sluggish consumer spending, while its overseas businesses disappointed — losses in the US grew and demand in South Korea and Taiwan was sapped by China's slowdown. The dismal figures prompted the retailer to cut its annual net profit guidance for the second time this year.

For the year to the end of August, the company now expects a net profit of Y60bn ($552m), down 45 per cent from its forecast in January. Its net profit more than halved during the September to February period.

Tadashi Yanai, its billionaire chief executive, has conceded that last year's decision to raise prices was a mistake. Asia's largest retailer — and the poster child for consumer-price deflation in Japan — will go back to doing what made the Uniqlo brand a globally known casual clothing group: selling jumpers and T-shirts at rock-bottom prices.

"This is the lesson I learned. We raised prices and here are the results . . . From now on we're going with the lowest prices as possible," Mr Yanai said.

When Fast Retailing, known for its $10 fleece jumpers, raised prices for the second year in a row in 2015, it was seen as a litmus test for Abenomics. If Mr Abe's stimulus programme was working, consumers should be confident enough to spend even if prices rose.

The verdict for now, economists say, is that Japanese recovery has not been strong enough for customers to loosen their purse strings.

Since taking office in 2012, the government has turned to the Bank of Japan's aggressive monetary policy to drive down the yen and raise inflation by increasing the cost of imports. Rising material costs are the main trigger for Uniqlo's price increases.

The weaker yen boosted exports and corporate profits, raising expectations that businesses would expand wages and consumers would start spending again. While the policy worked to a degree, the yen this week soared to its highest levels since the BoJ fired its second stimulus bazooka in October 2014.

The yen's volatility and a build-up of stock at home forced Mr Yanai to abruptly reverse his pricing strategy as the company resorted to discounts at the start of the year.

But analysts said the economy was not the only culprit behind Uniqlo's woes. Having long churned out hits from fleece jackets to thermal undershirts using new materials co-developed with chemicals group Toray, it is under pressure to launch the next big product.

"If you look at the companies that have succeeded in raising prices, they have been able to produce new products," said Masafumi Shoda, analyst at Nomura, citing furniture retailer Nitori and Seven & i Holdings' convenience store operation. "In the case of Uniqlo, there was a sense of stagnation in product development."

Mr Yanai's aggressive expansion plans to overtake Uniqlo's larger global rivals have also been hurt by its struggles in the US where it has been forced to close some stores in suburban areas.

By taking time to develop new products using innovative materials, Mr Yanai has set his strategy apart from European groups that specialise in fast fashion, most notably Inditex of Spain, the parent of Zara, and Sweden's H&M.

But the company is aiming to strengthen online sales with plans to open new distribution centres in Japan, China, Europe and North America. With these openings, Mr Yanai hopes to accelerate product delivery, reduce stock shortages and cut operating costs.

"Uniqlo's digital strategy is finally moving forward. The key is whether innovation will be born from this effort," Mr Shoda added.

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