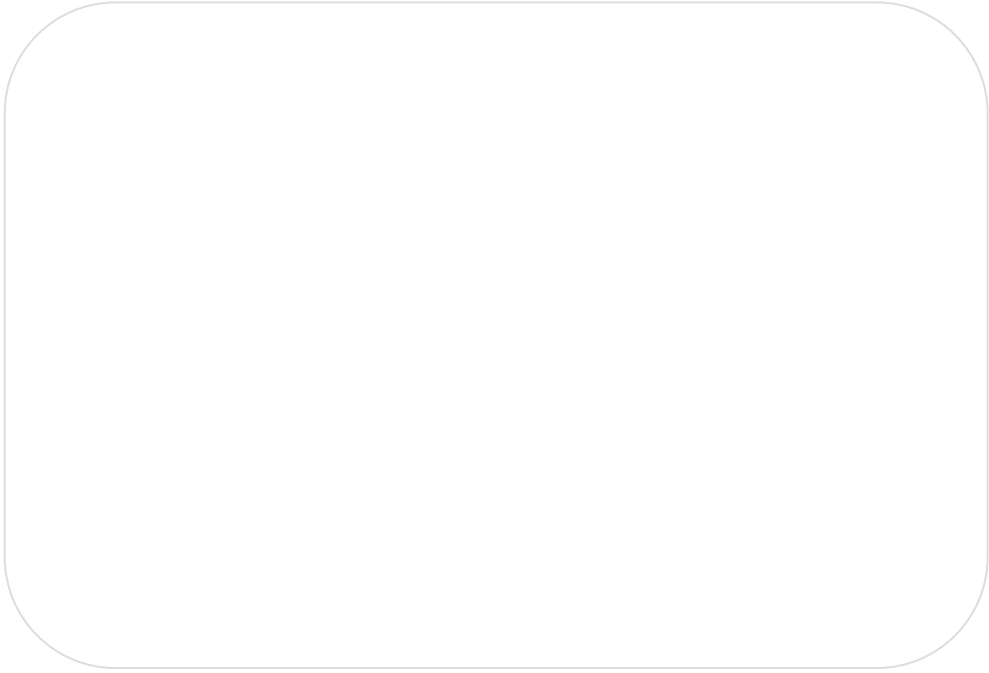


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**Paradigm Innovation through the Strategic
Collaboration between TORAY & UNIQLO:
*Evolution of A New Fast Fashion Business Model***

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Abstract

The key purpose of this study is to examine the remarkable context within the evolution of the paradigm innovation in fashion product development, in the case of Japanese fashion apparel, UNIQLO, created by Fast Retailing Corp in 1998. The key theme hereby concerns innovation, and this perspective surely necessitates Fast Retailing's strategic collaboration with a Japanese new material and artificial textile powerhouse, TORAY: as TORAY's technological provision was an essential source for the dynamic product and process innovation behind the extraordinary growth of UNIQLO. Furthermore, the technological superiority also entailed its innovative positioning in market competition. It is crucial to examine how and why the two brought about their core competences together through new combinations of concepts. This should impart a few promising research perspectives regarding their innovative model of unchallenged value creation, strong market competitiveness, and sustainable corporate growth.

Keyword: Paradigm Innovation, Product Development, Business Model, Japanese Apparel Industry, Fashion Apparel, Fast Fashion, Fast Retailing, UNIQLO, TORAY, Alliance, Virtual Vertical Integration

A Nonconformist in the Japanese Apparel Industry

It is hard to disagree that the international recognition of the Japanese technological cutting edge has surely resided in the field of electronics, engineering, and applied sciences-based manufacturing. Concerning the business arena of public fashion apparel, however, there has been no noticeable presence in global perspective so far. In borrowing Porter's framework of national competitiveness¹, Japan showed relative weakness in developing a sustainable array of competitive value chains that induced innovative business models of fashion apparel.

Despite some attention-grabbing fashion manifestation by creative Japanese designers through the 1970s and the 1980s, the sensation was assessed, then, framed within exclusive and exotic luxuries by the Mecca of leading fashion creativity such as Paris and New York.² So Japanese innovation in fashion was reckoned in the individual level, and there was no systematic impact through a novel business model of fashion production that jolted international apparel markets. The Japanese apparel production was therefore centred upon the limited local demand, and the industrial interest had to remain surprisingly domestic.

The rise of China as the global centre of apparel mass production since the end of the 1980s pressurised the Japanese domestic producers to either close down or follow the universal trend, i.e. an "exodus" to China for the pursuit of cheaper labour.³ This entailed some level of internationalisation, particularly in enhancing the cost-saving competence of specified and coordinated production; nonetheless, it was involved with no fundamental innovation for the Japanese apparel producers with regard to leading new concepts and values in the global fashion business. Although the industrialisation of pre-war Japan and the industrial restoration of post-war Japan owed considerably to the uncompromised international competitiveness of textile production and export, the accomplishment of the textile sector could not attract the globalisation of the Japanese fashion apparel. The principal currency of knowledge flows and trend creation within the Japanese fashion business has been therefore virtually one-way traffic: from Western Europe to Japan, or via USA then to Japan.

¹ Porter, M. E. (1990) *The Competitive Advantage of Nations*.

² Tomizawa, O. (2003) *Fashion Sangyo Ron*, 129-130. Fukai, A. (2001) *Fashion Burando Besuto* 101, 15, 18-19, 20-21.

³ Yano Keizai Kenkyuusho. *Sen'i Hakusho* (1984) – (1990). Also, Itami, H. (2001) *Nippon No Sen'i Sangyou*, 44-48.

So Japan has never been in the position of leading business models in the world of fashion apparel. However, since the epoch of Fast Fashion was marked from the mid-1980s, the new business models, originated in USA and Italy, began to provide the Japanese apparel industry with a new horizon of innovations. Once again, this industrial initiative was an introduction from the West; alongside the soaring competitive pressure from the inflowing foreign products, the Japanese fashion apparel producers, having been “sandwiched tightly between the prestigious luxury bands from Europe and the Asian products with unmatched price competitiveness”, had to explore a new source of sustaining their positions in the domestic market.⁴ Local leaders such as Onward Kashiyama, Renown, Sanyo Shokai, Durban, and Five Fox embarked upon corporate-level transformations throughout the 1990s, and this resulted in comprehensive permeation of Fast Fashion models into the Japanese apparel business. Nevertheless, the so-called industry-wide venture remained to be competitive tactics of defending local market shares rather than a strategic big push to enact a much more fundamental paradigm change in fashion apparel business.⁵ Nothing decently groundbreaking was thus realised until Fast Retailing blazed a new trail of developing fashion business from the turn of the century. With its flagship brand, UNIQLO, Fast Retailing stood out as an industrial “nonconformist” by rejigging the industrial incumbents’ typical product categories as well as value chains. Within a decade since its first breakthrough, UNIQLO has grown to be one of the most well-known and popular brands not only in Japan but also in East Asia; and now the corporate aim is clarified to disseminate its business model in a global scale.⁶ For the first time in the history of the Japanese apparel industry, a local retailer has just stood up to stretch out its reach to the international market systematically: this is the first Japanese fashion apparel producer, non-defensive.

The primary purpose of this study is to discuss the historical context within the evolution of an unprecedented paradigm innovation⁷ in fashion product

⁴ Sakaguchi, A. (2009) “Nippon Fassion Sijyou No Kaitai To Saikouchiku”, 46-47. Itami, H. (ed.) (2001) *Nippon No Sen’i Sangyo*, Chapter 3 on the industrial structure, Chapter 6 on competitive strategy in apparel market.

⁵ Senken Shimbunsha (2009) *Sen’i Fassion Bijinesu No Rokujuuu Nen*. Chapter 4 on Apparel.

⁶ The author’s interview with Mr Tadashi Yanai of Fast Retailing, on Friday 24 July 2009, at the HQ of Fast Retailing in Kudanshita, Tokyo. Also, Mr Yanai’s presentation at Hitotsubashi Business Review Forum, on Thursday 23 July 2009, at Roppongi Academy Hills 40.

⁷ Concerning the term, “paradigm innovation”: see the methodology of mapping innovation

development, in the case of a Japanese-origin fast fashion brand, UNIQLO, created by Fast Retailing Corp. The key theme hereby concerns innovation, and this perspective surely necessitates Fast Retailing's strategic collaboration with a Japanese new material and artificial textile powerhouse, TORAY: since TORAY's technological provision was an essential source for the dynamic product and process innovation behind the stunning growth of UNIQLO in the past decade. More significantly, the technological superiority also entailed its innovative positioning in market competition. It is thus important to examine how and why the two brought about their core competences together through new combinations of business resources.⁸ This should provide a few promising research perspectives regarding their innovative business model of unchallenged value creation, strong market competitiveness, and sustainable corporate growth.

From Unique Clothing Warehouse to UNIQLO

The origin of Fast Retailing was a local tailor in Ube city, Yamaguchi Prefecture in West Japan. Tadashi Yanai in 1984, the present owner and CEO of Fast Retailing, launched his first business model of warehouse-style apparel retailing in Hiroshima, and branded it as Unique Clothing Warehouse. The conceptual foundation of his shops were a more or less 'mishmash' of his ideas, absorbed through his frequent visits to USA, Hong Kong, and Europe, but obviously, Yanai's key method of business development was based upon nothing but learning by doing.⁹ More than a decade since the first launch, countless ideas and attempts were made and abolished, then retried, and it is not too absurd to denote that there was no concrete business concept surfacing with a solid organisational system until it made inroads into Harajuku in November 1998, one of the fashion nuclei in Tokyo. Besides, another significance of the inauguration of the

space. Tidd, J., J. Bessant, K. Pavitt (2005) *Managing Innovation*, 10-13. For a more fundamental study on the concept of paradigm: Kuhn, T. S. (1962) *The Structure of Scientific Revolutions*.

⁸ Yonekura's research methodology has influenced this approach. See Yonekura, S. (1998) "Kei'ei'shi Gaku no Houhou Ron: Itsudatsu, Hukisokusei, Shukansei" (The Perspectives of Deviance, Irregularity and Subjectivity in A Methodology of Studying Business History); Yonekura, S. (ed.) (2002) *Kigyo no Hatten* (Growth of Corporation), especially, 9-15.

⁹ Yanai, T. (2003) *Issho Kyuuhai*, 27-45: this part well describes the remarkable context of his learning from continuous trials and errors.

Harajuku shop resided in Yanai's critical decision of uniting his company's offerings under a new brand name.¹⁰ It was the genesis of UNIQLO.

The implications of this "Harajuku Takeoff" should be threefold. Firstly, it was certainly the most strategic decision for Yanai to try out his business brainchild of 15-year learning from the management of Unique Clothing Warehouse since 1984 in a variety of regions in Japan as well as a decade of daily learning from the administration of his father's heritage, the local tailor shop. The Harajuku shop signalled Yanai's strategic direction that his business model would be changed from a collection of regional apparel warehouses to a fashion apparel retailer, deployed in urban cores. Secondly, once being located in the kernel of the Japanese fashion frontier, it is certain that the strategic nature of fashion apparel surfaced immediately; Fast Retailing had to explore and secure its positioning to establish a competitive brand, i.e. one of the most essential immaterial (and invisible) corporate resources.¹¹ Yanai's choice was a model of fast fashion in evolution, which was originated from USA, e.g. GAP. And lastly, the harsh nature of competition in the arena of fashion apparel, which could be in theory a virtually atomistic competition particularly in the location like Harajuku, allowed no one to stay in the business without outstanding flagship products: put it differently, "fashion blockbusters".

So Fast Retailing's first bet was placed upon UNIQLO Fleece. Throughout the years of 1999 and 2000, then, Japan witnessed a refreshing sensation in fashion apparel: the gross sales of this new company's fleece recorded approximately 35 million.¹² The rare megahit under the lasting economic sluggishness was even seen as a social syndrome and this enabled Fast Retailing to make a stunning kick start in the name of UNIQLO. As a fashion apparel retailer in Japan, the placement of fleece products in the frontline was certainly unique enough. Fleece apparels had already been offered by the prestigious Japanese sports brands such as Mizuno, but it was categorised as a premium outdoor product, usually followed by high prices as well as the advanced application of state-of-the-art technological cutting edge for extreme conditions such as

¹⁰ Yanai, T. (2003) *Issho Kyuuhai*, 66-69.

¹¹ Tomizawa, O. (2003) *Fassio Sangyo Ron*, 127 (on the definition of fashion as a inimitable resource in sociological term), 129-130 (on the European leadership in creation of modern brands).

¹² Yanai, T. (2003) *Issho Kyuuhai*, 109-112: on the fleece fever.

winter mountaineering and the polar exploration.¹³ That is to say, fleece was positioned in the sphere of the lead-user minority, specifically differentiated from the public apparel. Nevertheless, UNIQLO's initial market penetration en masse was actualised by a bold attempt of flipping the established product concept upside down. There, an adventurous corporate challenge was enacted. On the superficial level, the distinctive product appeal was derived from two perspectives: the revolutionary pricing of 1,900 Yen, which was never intended in the precedent marketing, and the inexperienced playfulness within the band of UNIQLO fleece in 50 vivid colours.¹⁴ However, the focal point of the product marketing was placed on somewhere else. Fast Retailing was the first Japanese company that succeeded in marking an epoch of the dominance of fast fashion in Japan.

Into the Arena of Fast Fashion Business

It is widely accepted that the origin of the era of fast fashion should be traced back to the time when GAP of USA in May 1986 declared itself as a new business model that entitled 'Speciality Store Retailer of Private Label Apparel'.¹⁵ Followed by Benetton of Italy, the first generation of fast fashion of today was raised in the 2nd half of the 1980s. The quintessence of this model resided in the total integration of apparel production, namely, covering from the initial design and plan to the sales and marketing to the final consumers. This approach entailed a genuine globalisation of the system of fashion apparel manufacture under the whole control of the corporate headquarters in comprehensive technical impact from computerisation and information technology. Rather than enacting ownership of production factories in local vicinities, securing contracts with regional producers of supplying cheaper labour cost and reliable skills became the key concern of management. Yet in the phase of learning by doing with

¹³ Britain along with USA has been the pioneer of extreme outdoor apparels. Parsons, M. C. and M.B. Rose (2009) "Lead User Innovation and the UK Outdoor Trade since 1850". In Japan, the leading brands of outdoor products used to be, Mizuno, Asics, and Decant.

¹⁴ Yunikuro (UNIQLO) (2008) *Yunikuro No Dezain* (Uniqlo's Design & Advertisement 1999-2007), 42-43, 105.

¹⁵ Senken Shimbunsha (1999) *Nippon Ryuu SPA No Chousen*, 3-5. Yamazaki, M. (2007) *Gendai Apareru Sangyou No Tenkai*, 86-92. (Especially, the author, as the creator of the Japanese-style technical term, SPA, explains the details behind the creation of the vocabulary. See Column 3, 88-90).

ongoing trial and errors, Yanai's pursuit of a new business model commenced in the identical period. His early contracts with domestic apparel producers in China and Hong Kong were made from this time as well.¹⁶

The decade of the 1990s became the crucial phase of global fast fashion firms' full-dressed takeoff, particularly those in Europe. In taking advantage of their well-established competitiveness in art and design, the European venture was focused upon the intensive enhancement of fashion element within their value chains.¹⁷ The typical instance was presented by the brands like Inditex of Spain (owning Zara), H&M of Sweden, and NEXT of Britain. Their business value was thus firmly settled in the strategic shift from "off-the-peg" to "off-the-catwalk", i.e. how to accelerate further the process of applying the European fashion frontier, shown on the catwalks by top notch designers, to street apparels with affordable prices. It should be incorrect that the Japanese fashion apparel remained behind. Including World's (ワールド *Wa-Rudo*) remarkable success in deploying a new fast fashion brand, OZOC, the big names in fashion apparel such as Onward Kashiyama and Sanyo Shokai also restructured their product portfolios by putting newly developed brands onto the market.¹⁸ Digitalisation was applied to every process of management and production on the whole to speed up the procedures of product research and development, and most of all, of estimating market demand with higher precision. Nonetheless, their corporate challenge was limited to enhance (or sustain) product competitiveness in the domestic market, whilst the Europeans and the Americans mobilised their resources for rapidly escalating international competition in a global scale. The level of strategic perspective was fundamentally different. The aggressive market penetration and domestication of refreshing western tags such as GAP and Benetton ate away their market shares and obsolete their brand images. Rather than any of spontaneous incentive induced within the industry, the external pressure was a more palpable catalyser behind the Japanese companies' hasty shift to the inexperienced area of fast fashion.

¹⁶ Yanai, T. (2003) *Issho Kyuuhai*, 39-40.

¹⁷ Kobayashi, M. (2006) *Itaria Fassion Gyokai No Senryaku*, Part II, 32-35.

¹⁸ Senken Shimbunsha (1999) *Nippon Ryuu SPA No Chousen*, Chp.1. World, Chp.2. Ryouhin Keikaku (Muji), Chp.3. Sazaby, Chp.4. Sanei International, Chp.5. Nice Claup, Chp.6. MokuMoku, Chp.7. Five Fox, Chp.8. Honeys, Chp.9. FDC Products.

Fast Retailing Ready

Until the launch of UNIQLO in 1998, Fast Retailing's a decade of corporate evolution towards a new generation of fast fashion deserves our attention. Yanai's in-depth experience in managing local tailor shops provided two clear rationales for his first business shift from men's tailoring to casual wear retailing from the mid-1980s. His visits to university coops in USA inspired him to consider a model of apparel retailing without pushy explanations in customer servings, and this was a bold contrast to the typical serving customs of men's tailor shops.¹⁹ Passing the initiative of choice and purchase over the customers at his shop was Yanai's first concept. The other key idea concerned his management of sales turnover: certainly, the profit ratio per sale of gentlemen's suits and formal wears was higher than that of casual wears, but more significantly, the frequency of purchase was much lower. Yanai's second rationale was based upon the significance of scale and scope in apparel sales.²⁰

The twofold logic of his business shift then induced three managerial consequences. The first was to focus upon developing a warehouse-style shop of customers' self service, and this propelled the further development of Unique Clothing Warehouse and the retreat from the traditional tailoring model. Then, secondly, an increasing variety of casual wears that covers a wider scope of preferences from different age groups (with different purchasing capabilities) began to make production cost a much more strategic matter. Besides, price competitiveness was soon reckoned as the essential for faster turnover in sales. Once this perspective was settled in the middle of managerial concerns, this rendered China the most appropriate location for immediate cost reduction in mass production of casual apparel. In tandem with the determined shift of production core into China, Yanai's research on the apparel producers' business system in the main land, especially those subcontractors of western fashion brands in Hong Kong in the 2nd half of the 1980s, brought forward a model with more potential in profit generation.²¹ It was a fully combined structure of apparel

¹⁹ Yanai, T. (2003) *Issho Kyuuhai*, 27-31.

²⁰ Yanai, T. (2003) *Issho Kyuuhai*, Yanai's key concern in corporate growth was speed. Obviously, his strategic aim was to fully exploit the competitive advantage of scale and scope of an extended organisation under control. Chandler, A. D. Jr. (1990) *Scale and Scope: Dynamics of Industrial Capitalism*. Also see Chandler, A. D. Jr. (1990) "The Enduring Logic of Industrial Success." *Harvard Business Review* 2, Vol.90: 130-140.

²¹ Yanai, T. (2003) *Issho Kyuuhai*, 39-40.

production and retailing. So the third move was driven by his attempt of integrating the value chain under a unified corporate plan and control. Since Fast Retailing with the flagship brand of Unique Clothing Warehouse remained to be specialised in retailing, factories were neither established nor acquired. Instead, long-term contracts with selected local producers in South China was made to bring forward their ideas, designs and concepts of new fashion goods in the unified tag of Unique Clothing Warehouse, then to let the Chinese subcontractors manufacture them in accordance with the agreed quality and price.²² It is legitimate to denote that, throughout this attempt of change in this period, Yanai's model was virtually at the forefront in the early conceptual evolution of Japanese fast fashion business in international perspective.

From the first half of the 1990s, Fast Retailing's strategic direction in product development seemed more or less similar to those of rapidly globalising European firms. Design research centres were established in Tokyo and New York, and surely, the management team placed their principal focus upon reinforcing art and fashion elements within newly designed offerings.²³ Whether it was original designs or mimics and derivatives from the catwalks of leading fashion shows, the top value was pursued from reflecting the latest fashion trend vividly; the quality of apparel such as durability, and textile functions were concerned much afterwards. The competitiveness of fast fashion products obviously became more sophisticated: competitive price should come together with "instantly appreciative value" in the eyes of urban shoppers chasing the latest fashion mode. Regarding this demand, fast fashion producers were pressurised to grasp and comply with the creative mass point in dynamically changing street fashion trends as soonest as possible: so more efficient information processing surfaced the strategic essence. Consequently, the digitalisation of the corporate infrastructure for processing information not only with speed but (more significantly) precision became the technical

²² Yanai, T. (2003) *Issho Kyuuhai*, 37-40.

²³ *ibid.* 69-70. Despite the difference in the industrial sphere, the issue of information sharing within organisational collaborations for product development might present considerably similar perspectives. The following references concerned the viewpoint: Chuma, H. (2000) "Determinants of the Shadow Value of Concurrent Information Sharing in Japanese Machine-tool Makers". Moreover, the information sharing certainly concerns the essential dynamics within an organisation of multi-product development: the following research also provides a critical framework: Nobeoka, K. and M. Cusumano (1997) "Multi-Project Strategy and Sales Growth: The Benefits of Rapid Design Transfer in New Product Development."

foundation for operational profits.²⁴

The electronic method of Point of Sales (POS) system was already introduced by the end of the 1980s, but a mere collection of sales data was insufficient to churn out reliable estimations of upcoming market demands. The data set had to be constantly updated, accumulated, processed, then analysed by state-of-the-art programming techniques to minimise the realistic and inevitable gap between the corporate expectation of market demand and the gross size of the actual purchases made at shops.²⁵ It became apparent from this period that the application of Information Technology profoundly concerned both the corporate infrastructure for cost-saving flexible production and the managerial protocol for profitable mass customisation in fashion business.²⁶ Fast Retailing never stayed behind in terms of the industrial trend. By the moment of marking the Harajuku milestone in the autumn of 1998, Fast Retailing already complete to sinew its business structure as a model of fast fashion retailing en vogue.

UNIQLO Shift & Fashion Functionalism

Now a burning question is this. During the fleece sensation surrounding the year of 2000, was Fast Retailing either alone or outstanding by itself in the Japanese fashion business? Certainly not: a majority of the leading Japanese apparel producers were successfully transforming themselves into IT-based fast fashion retailers as well.²⁷ That is, despite the wide variety in levels of scale and scope of corporate change, most of them were in the “race” for more creative business models with more competitive brands. UNIQLO was certainly one of them, not the only in the market. Furthermore, it was as a matter of fact a completely infant brand, compared to all those well-established ones from big firms with long corporate histories. It is rather noteworthy that the

²⁴ Senken Shimbunsha (1999) *Nippon Ryuu SPA No Chousen*, 109-116.

²⁵ Since the application of IT has become the most strategic backbone of every business model in Fast Fashion, no official announcement in public regarding the sources and the contents (or any other details) has been made. Fashion apparel powerhouses develop their own IT resources; or a wide variety of custom-made IT solutions, programmed by the industrial specialists, would be outsourced as well.

²⁶ This viewpoint is concerned with the debates in Kotha, S. (1995) “Mass Customization: Implementing the Emerging Paradigm for Competitive Advantage”.

²⁷ Senken Shimbunsha (2009) *Sen'i Fassioin Bijinesu No Rokujuuu Nen*. Chapter 4 on Apparel.

nation-wide fleece fever began to cool down so swiftly after the winter of 2001, and Fast Retailing faced a virtual freefall of its gross sales in the following season.²⁸ However, more remarkably, it soon bounced back; throughout the consequent 2000s, the company turned out to be the most attention-grabbing Japanese firm owing to its surprisingly constant corporate growth and distinguishing business performance.²⁹ It has attracted more attention, as the apparel retailing was never recognised as the “spearhead” of the Japanese industrial venture for new sources of international competitiveness. Indeed, none of fashion apparel producers, whether or not they succeeded in the strategic transformation into advanced fast fashion models with sophisticated IT infrastructures, accomplished such growth in the identical period. Moreover, some of the much more privileged names in the Japanese apparel history were even disappeared due to bankruptcy; some were acquired by others including Chinese firms.³⁰

Then, the following question would be significant as well: what made Fast Retailing create the fleece fever? A sub-question is, why the company chose not other apparel goods but fleece as the initial frontline product in its 1998 Harajuku debut? It was a decade before the determined first Tokyo kickoff, in 1988, when Yanai’s project of bringing Unique Clothing Warehouse into an international fast fashion business was commenced. The principal assignment was to set up its own system of manufacture in China, centred in Hong Kong. The production management team deserves our close attention: including the manager, Mr Kotani, the team consisted of apparel design experts from sports and outdoor wears.³¹ This is an important clue that, from the early phase of corporate development, Fast Retailing was involved with particular apparels of requiring combination of designs and functions. It is worth recalling that the inauguration of Unique Clothing Warehouse in 1984 was initiated by Yanai’s concept of running an warehouse-style apparel retailing with very high sales turnover, which provides quality casual clothes in affordable prices for undifferentiated mass customers. Now, in combining the two corporate contexts in production concepts, a simple outdoor

²⁸ Yanai, T. (2009) *Seikou Ha Ichinichi De Sutesare*, 16-17.

²⁹ Fast Retailing Annual Report, 2004-2009.

³⁰ A good instance is Durban. It used to be one of the most prestigious gentlemen’s formal and semi-casual apparel brands in Japan; due to the unrecoverable financial problem, in May 2010, the firm was acquired by Xian Dong apparel corp. of China.

³¹ Yanai, T. (2003) *Issho Kyuuhai*, 40.

product with apprehensible functions such as fleece was a rational choice. Under the unified tag, UNIQLO, the outdoor product, which used to be known as high-tech-driven (i.e. expensive) but relatively unfashionable (i.e. function-centred), was offered in the surprisingly affordable price of 1,900 Yen in a fancy variation of 50 vivid colours. It was a virtually perfect materialisation of Yanai's key ideology of apparel retailing as well as Fast Retailing's technical core competence in product development up to 1998.³² With the clarity in Fast Retailing's offering through a sensible combination of their business resources, the value of UNIQLO fleece well appealed to shoppers in high streets. So the quick answer to the question above should be Fast Retailing's innovation in realising a new concept of fashion apparel.

It is more important to discuss what was clarified and then solidified within Fast Retailing's key strategy of product development throughout the fleece fever of 1999-2001 rather than the extraordinary occurrence itself. The outstanding sales figure of 35 million pieces let the management of Fast Retailing convinced with the vast potential in the innovative combinations of apparel functions and fashionableness. Fleece was a starting point that provided the management with confidence in the evolving corporate-level strategy afterwards. The learning thus induced a new business paradigm, namely, fashion functionalism. Furthermore, this turned out to be the conceptual scaffoldings to bring upon "UNIQLO Shift", which was a whole re-categorisation of fashion clothing within a new frame of apparel functions such as keeping warmth and coolness, dryness and moisture, skin health and environment friendliness and so on.³³

The essential breakthrough of the UNIQLO Shift resided in the following two-fold consequences. Firstly, the new perspective of categorising the mass consumers into functions broke down all the traditional fashion marketing divisions, based upon age groups, genders, regional and geographical elements, cultural factors, or purchasing-power-related factors etc. This certainly rendered Yanai's business ideology

³² Regarding the concept of "core competence" or the resource-based approach, the following references provide essential grounds for further debates: Prahalad, C. K. and G. Hamel (1990) "The Core Competence of The Corporation"; Aoshima, Y. and T. Kato (2003) *Kyoso Senryaku Ron*, 85-112; Itami, H. and T. Numagami (1992) "Dynamic Interaction between Strategy and Technology".

³³ Yunikuro (UNIQLO) (2008) *Yunikuro No Dezain* (Uniqlo's Design & Advertisement 1999-2007), 35-37.

of offering quality goods to undifferentiated mass customers. Then, the second upshot was concerned with opening a wide window of creating new business models between fashion apparel retailing and top-notch textile and material producers, especially those in Japan. The fashion functionalism requires a solid technological substance to actualise both uniqueness and sustainability within apparel functions. That is, without the advanced technologies of new textiles and materials, the business paradigm cannot lead the creative fashionableness from apparel products. Since the industrialisation in the Meiji era, Japan has been blessed by world-class textile producers' innovations and growth, and their corporate "locomotion" was one of the most critical sources of both pre-war economic growth and post-war quick recovery.³⁴ The global powerhouses such as TORAY, TEIJIN, KURARAY, UNITIKA and so on, have been architecting the milieu of new high-tech textiles and materials. The fashion functionalism became a new business plate forme where Fast Retailing and those Japanese textile giants could explore not only profitable business opportunities in new joint product development but also creative organisational forms for more efficient collaboration. To put it simply, this new paradigm provides the two sides with more potential business grounds for mapping out so-called win-win strategies. It is legitimate to conclude that Fast Retailing's paradigm innovation, followed by the daring UNIQLO Shift, was therefore the most essential breakthrough throughout the fleece fever and the principal foundation of the corporate takeoff since then.

Rise of the Magnificent Combo & Mass-User Innovation

UNIQLO's post-fleece growth was driven by a series of megahit products. One of them was Heat-Tech, as being named, the brand was defined by the distinctive function of conserving warmth. It required a new compound of artificial fibres with specific technologies of textile production; that is to say, the field of research and development theoretically belonged to the high-tech textile producers. Regarding the development of Heat-Tech, Fast Retailing relied upon TORAY's technology, but even before the debut of this new output, TORAY was already involved with the production of UNIQLO

³⁴ Senken Shimbunsha (2009) *Sen'i Fassion Bijinesu No Rokujuuu Nen*. See Chapter 1 on *Gosen* (Artificial Textiles), 24-37. Also see Itami, H. (2001) *Nippon No Sen'i Sangyo*, 48-55.

fleece from 1998.³⁵ The committed collaboration between the two commenced in the middle of the fleece fever, i.e. 2000, and this deserves some discussion. Until the UNIQLO sensation, TORAY was a textile supplier for fleece production, but once Fast Retailing's capacity of product development and marketing was proven by the sales performance, the textile giant was convinced to blaze a new trail of the next blockbuster together with this young apparel retailer. For TORAY, there was nothing to lose in formulating a close alliance with, now, such an energetic retailer with massive outlets to the public mass market. In addition, as Yanai and his top management team brought themselves to the headquarters of TORAY in order to propose a strategic collaboration, the commitment became certain in Japanese manner. Nevertheless, it is worth denoting that the two kept the cooperation neither formal nor on-the-document (on-the-record) until they made an official announcement before the public in 2006.³⁶

The first generation of Heat-Tech was unveiled in 2003, and immediately from the year of the debut, it replaced the fascia of UNIQLO. Within four years after the first appearance, Fast Retailing made a sales record of 64.5 million pieces.³⁷ Behind the boom, the implication of the Heat-Tech was threefold: first of all, it was obviously a would-be frontline product that extracted the essential function of the predecessor, i.e. conserving warmth. Through the fleece sensation, the apparel function as a fashion appeal was popularised enough, so the introduction sensibly saved information cost. Heat-Tech paved a sensible path of business rationality, derived from the management's evolutionary perspective on product development.³⁸ Secondly, it represented Fast

³⁵ Yanai, T. (2009) *Seikou Ha Ichinichi De Sutesare*, 114-116. This fact was also denoted by Mr Ogawa: Interview with Mr Ogawa, in charge of the "Uniqlo Office" in TORAY HQ, on Monday 13 April 2009 at Roppongi Hills, Tokyo.

³⁶ Interview with Mr Ogawa, in charge of the "Uniqlo Office" in TORAY HQ, on Monday 13 April 2009 at Roppongi Hills, Tokyo. Also, Yanai, T. (2009) *Seikou Ha Ichinichi De Sutesare*, 236. (The formal contract for the official strategic alliance was made in June 2006.)

³⁷ Yanai, T. (2009) *Seikou Ha Ichinichi De Sutesare*, 117.

³⁸ The evolutionary view on technological development provides a reliable theoretical context to analyse fashion product development as well, based particularly upon UNIQLO's functionalism and positive application of high-tech textiles. See the introductory discussion of Ziman, J. (ed.) (2000) *Technological Innovation as an Evolutionary Process*. Besides, the following reference also imparts a helpful case for studying the TORAY-UNIQLO cooperation in product development. Iansiti, M. (1995) "Technology Integration: Managing Technological Evolution in a Complex Environment". The constant learning (both organisational and individual level) during product designs and development should be certainly another essential element within the evolutionary feature: Van de Ven, A. and D. Polley (1992) "Learning While Innovating".

Retailing's choice of artificial textiles as the principal foundation for research and development rather than natural materials. This was based upon the company's understanding of the potential in artificial fibres for its fashion functionalism.³⁹ Last but not least, the commercialisation of Heat-Tech concerned Fast Retailing's product strategy of Kaizen, i.e. continuous amelioration. In the following year of 2004, the 2nd generation was marketed with its additional function of antimicrobial treatment, then, moisturising function was introduced in the next version. In 2007, Fast Retailing and TORAY announced the launch of the new Heat-Tech with semi-permanency of all functions, introduced in the previous generations. The product evolution never stopped: TORAY's new lacto-fibre was applied to enhance softness as well as moisturising effect. Then, in the latest series, the functions of crease resistance and of static electricity prevention were combined; besides, the colour variation was furthered for fashionableness.⁴⁰ The gist of this remarkable evolution exists in the organic collaboration between TORAY and Fast Retailing. For they engaged in the product design and development from the level of textile material to the sales strategy as one, the full-dressed Kaizen has been possible, and the mass customers have bought the visibly evolving value with little hesitation.

As shown in the remarkable context of product development, the TORAY-UNIQLO combo brought about a novel business model that would facilitate mass-user innovation. Owing to the bold concept of functionalism, from the inceptive phase of product design, their collaboration was not constrained by the traditional agenda of categorising differentiated fashion consumers; the concept of Heat-Tech for instance concerned an utterly undifferentiated mass population, simply prone to expect warmth and affordability. Rather than the inevitably dynamic characteristics of seasonal fashion vogue, they could prioritise the key assignment of what is fundamentally needed from apparel functions and what is technologically possible from their corporate resources. Mainly Fast Retailing covered the former whilst the latter belonged to

³⁹ The author's interview with Mr Tadashi Yanai of Fast Retailing, on Friday 24 July 2009, at the HQ of Fast Retailing in Kudanshita, Tokyo.

⁴⁰ Full exploitation of a wide array of interactive advertisement medias has been the most strategic perspective for the completion of product development within Fast Fashion's management team. See Yunikuro (UNIQLO) (2008) *Yunikuro No Dezain* (Uniqlo's Design & Advertisement 1999-2007), 42-43, 104-111, 194-202 (interviews in English).

TORAY.⁴¹ Once the most basic (but strategic as well) requirements within the new product value were fulfilled, then the two could shift their focus upon the secondary elements those could effectively reinforce the primary; additional functions including anti-wrinkle were applied to later versions to prove the betterment in evolution. Another source for further value additions ex post facto requisite technological applications certainly resided in the enhancement of “art factors” such as sophisticated colour matching, subtle garment cutting, and silhouette design.⁴²

So the technical substance of this evolutionary approach was concerned tightly with a couple of the following strategic perspectives: targeting the undifferentiated consumers for determined mass production, and securing the initiative of creating mass consumption en vogue in accordance with the mass users unchanging wants. The powered mechanism of this mass-user innovation is thus different from the well-established model of lead-user innovation, remarkably theorised by von Hippel.⁴³ On the contrary to the one-way flow of disseminating context of new breakthroughs from a minor group of avant-couriers to the uninterested mass public, the mass-user innovation is driven by the dynamic tension amongst what is possible from the offering side, what is valuable from the intermediating body, and what is needed from the consuming mass. This model necessitates ever intensive processing of technical information in mass quantity in order to retain the signalling precision between the enmeshed fabrics of product supply and market demand. It is worth denoting that, in the annual meeting of 2005, Yanai declared that the de facto technical backbone of his business model concerned information technology rather than apparel production. His perception concerns fashion apparel as bodies of information and knowledge: and this standpoint relates to his view that the traditional belief of fashion within the elegant sphere of abstract art can be redefined within the dry business term of ‘industrial

⁴¹ Interview with Mr Ogawa, in charge of the “Uniqlo Office” in TORAY HQ, on Monday 13 April 2009 at Roppongi Hills, Tokyo.

⁴² Yanai, T. (ed.) (2009) *UNIQLO Sikoujyutsu*, 16-26: The art director Mr Kawashima Sato’s concept of being “super-rational” in product design and development well represents the substance of UNIQLO’s approach in fashion aestheticism.

⁴³ von Hippel, E. (1986) “Lead Users: A source of Novel Product Concepts,” 791-793; von Hippel, E. (1988) *The Sources of Innovation*; von Hippel, E. (2006) *Democratizing Innovation*, 22-31. Also see Parsons, M. C. and M.B. Rose (2009) “Lead User Innovation and the UK Outdoor Trade since 1850”, 2-4. Parsons, M. and M. B. Rose (2010) *Innovation, Entrepreneurship and Networks*, 48-54.

product'.⁴⁴

Under the UNIQLO banner of fashion functionalism, Fast Retailing defined itself as the 3rd generation of fast fashion business model.⁴⁵ The pioneering group with the unprecedented creativity of the 1980s including GAP and Benetton was placed in the 1st, and the rush of Europeans with catwalk exquisiteness in the following decade was tagged as the stylish opener of the 2nd stage. Certainly, the daring application of functionalism was groundbreaking enough to reform the domestic industrial contour within such a short period of corporate takeoff; and the extraordinary sales records of the past decade and today reflect mass consumers' response from the market side. In this article, another notable innovative perspective in the strategic collaboration between TORAY and Fast Retailing then inhabits in their organisational formation. Despite their organic co-works from the stage of brainstorming the concepts of new products and selecting applicable fibres and textile technologies, the two firms have brought forward no financial relations concerning the realisation of mass-user innovation. Now it is known that TORAY has established an array of exclusive product lines for UNIQLO and let the committed production stop and go according to Fast Retailing's analysis of market demand. Nevertheless, no information has been disclosed that any financial arrangement between the two was necessitated in their collaboration. In Yonekura's term, their organisational form is conceptualised as Virtual Vertical Integration.⁴⁶ It is obvious that the two-tier cooperation has constituted a consolidated value chain of profitable fashion apparel business. The two companies, however, have not set up any of typical joint ventures nor holding companies in between. The business context of

⁴⁴ The author's interview with Mr Tadashi Yanai of Fast Retailing, on Friday 24 July 2009, at the HQ of Fast Retailing in Kudanshita, Tokyo.

⁴⁵ Yanai, T. (2009) *Seikou Ha Ichinichi De Sute Sare*, 123-125. Also, denoted during The author's interview with Mr Tadashi Yanai of Fast Retailing, on Friday 24 July 2009, at the HQ of Fast Retailing in Kudanshita, Tokyo.

⁴⁶ Yonekura proposed this term for the presentation at the international videoconference (UK-JAPAN-USA-CANADA), organised by INNOVEX 2010, on Wednesday 28 April 2010. A similar viewpoint was already denoted in, Yonekura, S. (1997) *Nijyuu Seiki Gata Kigyuu Moderu Tono Ketsubetsu* (Departure from the 20th-century Model of Corporation). Also a remarkable theoretical argument regarding alliance designs was developed in: Doz, Y. L., A. Cuomo, and J. Wrazel (2007) *From Leadership to Management: Mobilizing Knowledge for Innovation in Strategic Alliances*, 313-316. Furthermore, from the analytical standpoint of theories of business architecture, the following will provide a good substance for thoughts: Fujimoto, T., A. Takeishi, and Y. Aoshima (eds.) (2001) *Bijinesu Aakitekucha*, Chapter.2, especially. 64-67.

value creation was vertically integrated through their partnership, but the group effort was financially non-cross-organisational.⁴⁷ Yet, the unexplored corporate perspective must call for more debates on the strategic nature of the Japanese-style alliances. This has to remain undone for the next study.

Concluding Remarks

This wrap-up underlines the three significant perspectives regarding the key success factors of the TORAY-UNIQLO combo. The quintessence of the breakthrough was found in the inexperienced paradigm shift within fashion apparel business, and the paradigm innovation was derived from the particular historical context in the evolution of Fast Retailing. The genesis of the landmark ‘irregularity’ in the business history of the Japanese apparel manufacture, with countless regularities in the path-dependence of concepts as well as domestic business models, surely deserves closer attentions from the academia. In the milieu of business paradigm, another breakthrough in the UNIQLO model settled in the unique mindset of perceiving the mass market in a global scale from the beginning and of extending their original system of value chains to abroad rather than merely staying in and defending the ‘comfy but so crowded’ home islands. The nonconformist’s approach to fashion business with functionalism helped the young company to successfully link itself to the vast domestic pool of the distinguished technological cutting-edge in artificial textiles and new materials. The corporate endeavour at ting up with the global powerhouse such as TORAY was indisputably sensible to spearhead the value creation of functionalism through determined application of the state-of-the-art technologies. Thus, the second key perspective in the success factors was technological. It is illegitimate to look over the technological capacity of TORAY in terms of arguing the success of UNIQLO. The last viewpoint concerned the theme of organisational uniqueness within the virtual vertical integration between the two. More than a derivative of network forms, the TORAY-UNIQLO collaboration was derived from their extraordinary partnership from organic product development to efficient mass customisation. Regardless of this understanding, the ‘black box’ in the visible organisational dynamics between the two was left untouched

⁴⁷ Interview with Mr Ogawa, in charge of the “Uniqlo Office” in TORAY HQ, on Monday 13 April 2009 at Roppongi Hills, Tokyo.

yet. Hence, this should be a crucial future research assignment.

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