

# The Influence of SPA Model on Muji and its Consumers in China

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**Abstract:** Fashion retailers such as Uniqlo and Zara and grocery brands such as Muji have become increasingly popular in recent years. In addition to the superior location factor, they all use the SPA model for sales. Taking Muji as an example, this report studies the positive and negative effects of adopting SPA model and puts forward suggestions for future development of Muji. This report collects primary data through questionnaires and uses secondary data to accomplish research objectives. The conclusion of this project is that the SPA model support Muji to achieve good relationships with consumers, but there are still problems that are not in line with the national conditions on the road of Muji to enter China. Therefore, this report puts forward some suggestions on how to localize SPA model in order that Muji can capture market demand and then attract potential consumers.

## 1. Introduction

### 1.1 Research background

With the improvement of economic level and income, shopping has become one of the most prevailing ways for people to enjoy themselves. Fashion retailers such as ZARA, Uniqlo and grocery brands represented by Muji are welcome among young people. One important reason is that when customers give their feedback to the merchants, they can quickly respond to meet their demands. This system is called the SPA model.

SPA model is a vertically integrated system that integrates product planning, manufacturing and retail. In order to shape the brand image which pursuits the essence, Muji makes use of SPA model with the integration of Japanese culture and business penetration. As a result, consumers are obsessed by Muji.

### 1.2 Research Questions & Objectives

This report mainly studies the influence of SPA model on Muji in China, including positive and negative effects, and how to improve this strategy to attract potential consumers. Aiming at these problems, specific research objectives are proposed. The purpose of this study is to clarify the definition of SPA model and analyze its influence on customer shopping by evaluating the advantages and disadvantages of SPA model. In addition, through the study of the SPA strategy of Muji, evaluating the influence on the enterprise itself and analyzing the consumption habits of its customers based on first-hand data are another two research objectives. Eventually, through the above analysis, the report summarizes some effective solutions for the further development of Muji and other SPA brands after the entire analysis of Muji.

### 1.3 Structure of the report

This paper is divided into six chapters. Firstly, the introduction is briefly described in chapter 1. The second chapter is the literature review. In this part, the definition of SPA model will be elaborated with the assessment of its advantages and disadvantages. It also introduces the motives of adapting SPA and the impact on Muji. The third part then describes the project's research methodology, including a detailed introduction to the primary and secondary data used in this article. Besides, the collecting method of second-hand data, that is, questionnaire, is expounded

within this part. The fourth chapter appraises the influence of SPA on consumers' purchasing behavior based on the questionnaire survey results. Meanwhile, the influence of SPA model on Muji in China is pointed out. Next, suggestions and recommendations for the future development of Muji and other companies using SPA are demonstrated. The final chapter is the conclusion of this paper.

## **2. Literature review**

### **2.1 The Definition of SPA**

SPA, the abbreviation of specialty store retailer of Private label Apparel was firstly stated by the ex-CEO of The Gap. Inc., Donald Fisher in 1986 (cited in Takuya and Xueying 2010). In Japan, it specifically refers to clothing companies who have their own brands sell in their own specialty stores. SPA adopts the form of vertical integration, integrating product planning, manufacturing and retail, reducing intermediate links as much as possible, that is, shortening the length of the supply chain, and dedicating itself to breaking down the barriers between enterprises, so as to establish an effective relationship between customers and suppliers. In the Japanese clothing industry, most growing companies adopt SPA, on account of some innovations it provides, such as the investment in information technology and improved coordination to obtain good customer satisfaction, as pointed out by Richardson (1996). Moreover, according to the questionnaire survey conducted by Ikeda on 96 Japanese spas in 2001, he concluded that the key factor for Japanese apparel companies to occupy the market is the private label and specialty store strategies (Ikeda 2003). After producing core products, Muji would gain the market competitiveness of SPA. All private brands can also be called SPA (Ikeda 2003). When businesses define all their products within the scope of private brands, there is no need to worry about losing consumers. In addition, SPA prices are generally lower than those of retailers and manufacturers. For example, the price of Uniqlo clothes is 2-3 times that of Taobao clothes, but the price of most clothes in China is 6-7 times that of Taobao clothes (Linkshop 2018). The high value of money generated by low price and high quality makes SPA have many returning customers, and customers are willing to make repeated purchases.

### **2.2 The Evaluation of SPA**

The analysis of SPA will be carried out from both positive and negative aspects. SPA has numerous advantages, firstly, unique and novel products planning tend to increase traffic and attract potential customers, thereby, and it can make the company directly grasp the consumer information, so as to capture their demand. After understanding customer needs, SPA can achieve quick response supply. Furthermore, from the aspects of supply chain, SPA substantially reduces logistics cost and time to improve the efficiency of the whole process. Nevertheless, SPA also has several problems, concentrated in the supply chain. How to control logistics, manage each link of supply chain, capital flow and information flow reasonably, and avoid blind expansion are the problems that SPA companies need to focus on. If the enterprise is hindered in the supply chain, a series of chain reactions will come up, such as loss of customers and high cost. Insufficient benefits and inadequate development space will cause great harm to the enterprise.

### **2.3 The Influence to customers**

The concept of specialty retailing emerged in the 1990s as a marketing strategy (Specialty Retailing 1986). One of the reasons for the rise of specialty stores is that they provide a platform for building relationships, not limited to buying relationships, buy also including personal relationships between customers and merchants. Consumers provide personalized demand to merchants, which can quickly attract attention. Many enterprises owe their success to individualized design and good business customer relations. In consumer cognition, one of the most important attributes of specialty stores is service, as pointed out by Gronroos (1984). Consumers will pay attention to what they can gain and merchants' attitude in the whole service process. Other important factors include quality of goods, price, service, location and advertising, suggested by Berman and Evans (1992).

To explore consumer behavior, Kathryn and Jan studied consumers' expectations of clothing stores and perceptions of service quality (1994). The result showed that, among the four determinants of service quality, including personal attention, reliability, tangible goods, and convenience, the biggest difference between expectations and actual perceptions rooted from the individual attention factor. Affected by race, marital status, and income, there are significant differences between consumer expectations and perceptions of reliability and convenience. On the other hand, the importance of services ranks third after commodity classification and price. The importance of services in the minds of consumers reflects the success of specialty retailers. Therefore, by providing the right mix of goods, prices and services, specialty retailers can gain an advantage over their competitors.

### 3. Research methodology

This report makes full use of primary data and secondary data. Secondary data is mainly from some professional papers, journals, books, such as Journal of Services Marketing, Journal of Fashion Marketing and Management and so on. They primarily introduce the definition and advantages and disadvantages of SPA model, analyze consumers' purchasing behavior under SPA, and pinpoint the specific ways of making Muji products in China. On the other hand, this report collects data and information of consumers of all ages on Muji through questionnaires. Questionnaire survey has some advantages such as high efficiency, easy operation, objectivity and easy quantification, which can obtain a large amount of original data in a short time and save costs. Therefore, this report chooses questionnaire survey as the way to collect original data. Through forwarding on social platforms like WeChat, a total of 183 people were collected and completed within a week. The respondents are mainly the two groups with great differences in consumption concepts between the post-1990 and post-1970 generations. The designed questionnaire mainly consists of three parts. The first part contains consumers' personal information and purchasing preference, such as age, income, shopping style and shopping influencing factors. The second part mainly investigates consumers' understanding of Muji and explains the advantages and aspects to be improved of Muji in China. The third part mainly focuses on SPA model, discusses consumers' influence and put forward specific suggestions. The collected first-hand data will help clarify the influence of SPA model on Muji in China, and give suggestions for the future development of Muji. Finally, these suggestions will be collected and summarized to such SPA enterprises.

## 4. Discussion

### 4.1 Questionnaire Result

The number of effective interviewees was 183, 114 (62.3%) were female and 69 (37.7%) were male (figure 1). Consumers over 30 years old accounted for the largest proportion (48.6%), the second largest group age from 18 to 25 years old, accounting for 45.9%, and the rest age groups accounted for about 5.5% (figure 2). For the monthly income or living expenses of the interviewees, the highest proportion of "1000 to 3000 yuan" was 41.0%, followed by "more than 5000 yuan" (37.7%). 14.2% interviewees were in the "3000 to 5000 yuan" range, while "less than 1000 yuan" was the lowest, about 7.1% (figure 3).

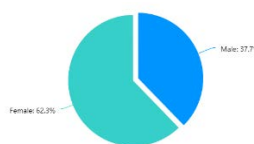


Figure 1. Gender of respondents

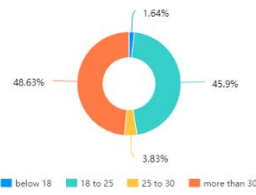


Figure 2. Age of respondents

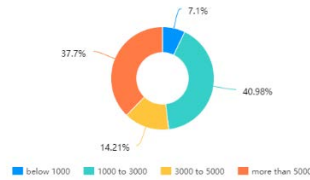


Figure 3. Income/living expenses of respondents

This questionnaire reflects some facts. Firstly, through the investigation of consumer shopping tendency, the proportion of people who spend 500 to 1000 yuan shopping each month is the largest (35.5%), and 1000 to 2000 yuan shopping expenditure accounts for the second (24.0%). In recent years, e-commerce is booming, online shopping provides convenience and rapidity, among the survey group, consumers mostly choose online shopping and large shopping malls. The quality of products and services, price, brand culture and design sense are most concerned when consumers go shopping (figure 5).

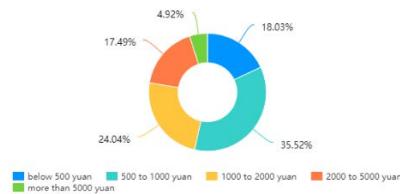


Figure 4. Monthly expenses for shopping

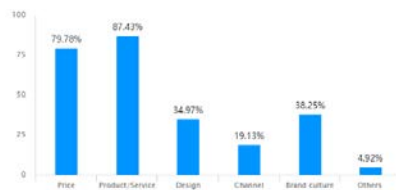


Figure 5. Factors to consider when shopping

Secondly, most consumers know about Muji and nearly 30 percent do not. Groceries, such as kitchen utensils, cosmetics, clothing, furniture decoration and food products, are favored by consumers, as shown in the figure below. Muji attracted consumers to different degrees in terms of minimalist design, high product quality, comfortable shopping environment and environmental protection concept (figure 6). However, there are still many deficiencies in Muji stores. 73.8% consumers think that the commodity discount is small, 23.0% consumers deem that the position of goods makes it difficult to find products, and 22.4% of the group believe that the distribution service needs to be improved (figure 7).

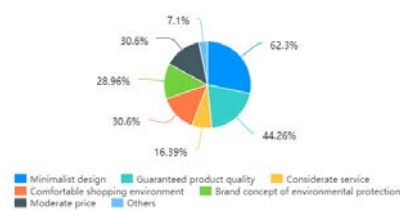


Figure 6. Factors to appreciate Muji products

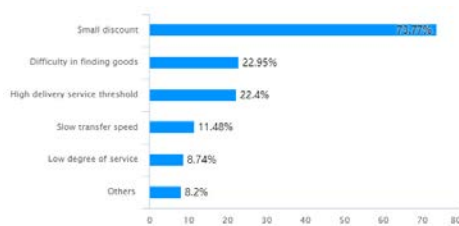


Figure 7. Deficiencies of Muji store

Furthermore, the questionnaire studied consumers' understanding of SPA model. 133 people (72.7%) did not understand SPA model, and only 50 people (27.3%) had heard of SPA model (figure 8). In large shopping malls, SPA brand is popular among consumers because of its good quality lower price, superior geographical position and fast feedback demand. However, there are still the following problems in SPA brand stores, such as the below expectation quality of products, the out-of-date design and long queue time during holidays, which cause consumer dissatisfaction. To deal with these problems, the respondents gave corresponding suggestions. 60.1% of the consumers thought that they could reduce the price and promote the price properly; 56.8% thought that it was necessary to grasp the mainstream trend, improve the distribution service, expand the store area, increase the proportion of staff training, and 9.3% of the groups gave other suggestions, such as improving the quality of products and services (figure 9).

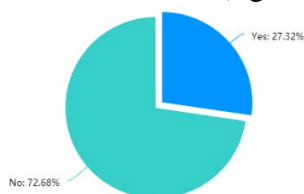


Figure 8. Whether consumers have heard of SPA

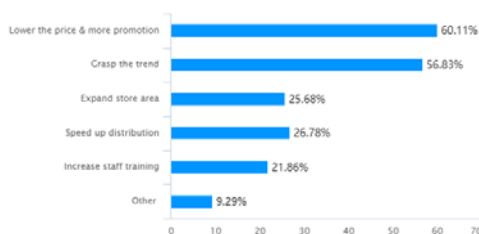


Figure 9. Ways to improve the SPA brand

## 4.2 Evaluation of the Results

The success of Muji in China contribute to several factors, including SPA strategy, splendid cross-industry operation and great supply chain capability. Muji is a very typical SPA. After completing a series of processes of R&D, production and manufacturing, the core products are produced, which makes Muji have the market competitiveness of SPA. The SPA model exerts deep influence on Muji's operation in China, mainly including three aspects: customer, employee cooperation and supply chain integration ability.

Firstly, SPA enables Muji to emphasize the "customer first" product strategy and attach importance to the communication and feedback process with customers. An enterprise's products or services need to be recognized by customers. Without customers, the enterprise will have no vitality and eventually go bankrupt. Only the consumer has the power to dominate the market (Cami & Donald 2011). Therefore, after listening to and meeting the demands of customers, making timely adjustments can benefit the enterprise. Muji always puts the customer in the first place, pays attention to the customer demand and feedback, and then produces what customers need in the shortest time. With "customer thinking", no matter in management or store sales, Muji staff always think from the perspective of consumers. In 2003, the company implemented the development

program named Watch in Japan (Global entrepreneur 2015). By observing the daily life of consumers and taking photos of rooms and products for further discussion and analysis, the development team can explore the potential consumption needs of consumers. In the strategy of Muji SPA, maintaining interactive communication with consumers has been playing an important role.

Secondly, the SPA model emphasizes the teamwork spirit, which lays a foundation for Muji's institutional reform. Team spirit, on the one hand is the effectiveness of interpersonal communication, on the other hand is the feasibility of interpersonal cooperation. The synergetic power can help enterprises to create a good atmosphere and enhance their response ability. Additionally, today's society gradually emphasizes team operation, and SPA brand needs to rely on the strength of the team and cooperation to exert greater power. On the basis of emphasizing teamwork spirit, Muji system reform was implemented. When Muji hit bottom in 2000, the embattled Mr. Matsui didn't cut wages and slash jobs to reduce operating costs. After in-depth visit to staff and production lines, he found that the company does not rely on individuals, but should rely on the system (Business design 2017). Regardless of individual ability, a sound system can stimulate everyone to play their role. After tapping the potential of each employee, their work is divided properly so that they can cooperate with each other to improve the operation efficiency and customer satisfaction. With focusing on team spirits, SPA brand is bound to help the enterprise towards the forefront of the era.

The most important factor in implementing the SPA model is the supply chain capability. By managing the supply chain and controlling the price reduction of goods, SPA can solve two situations that often occur in enterprises: lack of supply of popular products and backlog of unmarketable products. As early as 2001, Muji showed a big gap in inventory management (Linkshop 2018). To solve this problem, Tadashi Matsui implemented store management visualization after taking office, that is, to clarify the inventory quantity of each store and reduce mistakes. In August 2013, Muji launched the "global MD (marchandaze) system" to manage global inventory by increasing the speed of procurement and subsequent processes (Sina 2018). The result of optimizing the supply chain is to effectively reduce the price and thus improve Muji's pricing strategy. China Muji has a reasonable supply chain system. In the context of consumption upgrading, customers are no longer satisfied just considering the product itself or the price, but more importantly to pursue a series of services of the product. A sound supply chain can help Muji gain a foothold in the market.

## **5. Solutions & Recommendation**

The 2018 financial results showed negative growth in comparable sales in China (Corporate financial reports 2018). Between 2014 and 2019, Muji cut commodity prices 11 times. On March 22, 2019, the official announcement said: "continue to review the price, make changes for China," and "develop products that meet China's needs." (Interface news 2018). According to the above facts, the road of Sinicizing of Muji is not smooth.

In order to change the status and adapt Muji to China's economic environment, the following suggestions are proposed. On the one hand, Muji needs to localize the SPA model in the Chinese market. It can take advantage of China's relatively cheap labor and abundant resources, and combine the production of its own factories with the outsourcing of products in an appropriate proportion, which is useful to alleviate the problem that the quality of SPA model is difficult to be regulated. Although there are some increase in production costs, but it can be faster to provide consumers with high quality products. At the same time, localization can make Muji find the current situation of the Chinese market and capture the market demand.

On the other hand, when taking advantage of the Internet, Muji can occupy the market share of network sales. In fact, Muji has an online mall whereas it lacks creativity. To solve this, for example, online shopping mall can be used to reserve physical store services, and then customers would experience new products and book in advance. Moreover, in order to reduce the cost of transportation and improve the speed of distribution, distribution centers can be established in big

cities. Therefore, in the process of localization, Muji still faces huge challenges. The localization of SPA model and the advantages of the Internet play a positive role in the future development.

## 6. Conclusion

In conclusion, with the gradual coverage of SPA brand, more and more industries can be understood as "design-production-retail" integration which directly obtains consumer information and achieves rapid supply, result in great influence on enterprises to win the image of consumers. In addition, SPA management depends on the capacity of enterprise supply chain system, so enterprises need to optimize the supply chain to ensure the integrity of upstream and downstream connections.

The main purpose of this report is to study the influence of SPA model on Muji and its consumers in China. In order to achieve this goal, this paper introduces the definition, advantages and disadvantages of SPA, as well as the reasons why enterprises adopt SPA by using the second-hand data of literature, periodicals and books. Furthermore, this paper uses the form of questionnaire (183 people) as the method of collecting the original data. Adopting SPA management mode, successful cross-industry operation and excellent supply chain ability are the main factors for the success of Muji.

Therefore, the influence of SPA on Muji contains three aspects: customer first strategy, team spirit and supply chain integration ability. However, under the impact of China ecommerce industry, MUJI still faces great challenges in the future. In order to adapt to the current economic situation in China, MUJI needs to combine the business location, localize the SPA model, and make full use of the advantages of the Internet to ensure the online and offline two-way provision of services.

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