Glocalization Challenge: A Small Apparel Company in New York City

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Introduction

Glocalization was a portmanteau of globalization and localization. In order to expand globally, firms that adapted to local environments tended to be more successful than the ones that standardized their marketing efforts. “Think Globally, Act Locally” was the mantra of many multinational corporations, and one of the key success factors in realizing this concept was the decentralization of decision making authority. Nevertheless, many Japanese organizations were highly centralized (Taplin, 2013).

Koji was on a Skype meeting with Japanese executives. He thought it was about time to change the brand’s positioning and promotional strategies. In fact, Koji had another Skype meeting three days earlier for a different issue. He had to consult with the executives in Japan before making almost every key decision. When there was some disagreement, Koji usually consented reluctantly. This time, Koji did not back down easily. Since he oversaw the stores, and talked to his employees and customers on a daily basis, he was confident about his plan.

Disagreement

Koji Tanaka was the president of Red Eagle USA Inc., a subsidiary of a Japanese apparel firm. It designed and sold denim products under its own brand, Red Eagle. Manufacturing was done by contractors in Japan and China, and their products were wholesaled to small boutiques, chain stores, and online shops in Japan. Red Eagle also operated its own retail outlets including the two stores Koji managed in New York City.

Koji was in the process of reformulating the marketing plan he developed with Japanese executives a year ago. Since the New York stores heavily depended upon Chinese American customers, Koji wanted to diversify the clientele. Koji’s plan was to promote Red Eagle stores’ exceptional services with Japanese hospitality to attract regular American consumers, outside of their already strong Chinese-American demographic. Koji also wanted to mention that the stores carried various brands other than Red Eagle jeans. He was confident about the positioning strategy.

Executives at the headquarters strongly opposed the plan. They insisted on promoting Red Eagle as a premier jean brand from Japan, but they were not interested in promoting the stores or their
services. The executives thought promoting the brand would increase retail sales, and eventually provide an opportunity to wholesale to other retailers. They particularly did not like the idea of mentioning other brands on the website, advertisements, or any other promotional materials.

Red Eagle Co. Ltd.

After receiving a marketing degree from a college in New York, Koji worked for a trading company, an e-commerce retailer, and a consulting firm that developed marketing strategies for Japanese companies in the U.S. Koji had been working for Red Eagle since it opened the first store five years ago. Koji managed nine workers at the office and 14 sales people at the two stores. Office workers were in charge of developing websites, providing online customer service, managing logistics, and supervising the stores. Koji and his staff traveled to Japan two or three times a year, while Japanese staff came to New York for a Fashion Week twice a year. They maintained close contact with each other.

Red Eagle Co. sold jeans, denim shirts, and accessories at its chain of retail stores. It started as a wholesaler 25 years ago in Japan. It imported denim products from the U.S., and sold to Japanese apparel retailers. About 15 years ago, it began designing its own products and sold them as Red Eagle Jeans. Manufacturing was contracted to Japanese sewing factories in Okayama, Japan. The cost of production was quite high, but the quality was exceptional. An average retail price of Red Eagle jeans was around $200. Low-priced jeans were made in China and were set at a price point between $50 and $100.

Because the company wanted to control the brand’s image, and listen to their customers’ opinions directly, it opened the first store 10 years ago in Tokyo. Since then, Red Eagle had opened 25 stores in Japan, two stores in New York City, and recently opened another one in Hong Kong. It also managed e-commerce sites in Japanese, English, and Chinese. Over 50% of sales were made in their own stores, e-commerce, and TV shopping, and the rest was made with the wholesaling business. The total sales reached $30 million in Japan. In New York, two stores and the online shop together sold about $3 million per year.

All the stores in Japan were located in shopping malls and department stores in major metropolitan areas such as Tokyo, Osaka, Nagoya, and Fukuoka. Japanese department stores rented floor spaces to designer brands and fashion companies. The tenants installed furniture and fixtures, and sent sales people at their expenses. Red Eagle paid around 10% of sales as a rent. Lease agreements for shopping malls were similar to the ones in the US: tenants paid fixed monthly rents, common charges and real estate taxes.

In New York City, Red Eagle opened the first outlet in the SoHo district five years ago, followed by the Madison Avenue store two years ago. A famous Japanese interior designer designed both stores, and furniture and fixtures were custom-made with expensive materials. Red Eagle strategically chose the two locations. SoHo, which meant South of Houston Street, was considered a fashion Mecca for New Yorkers, and attracted a large number of tourists. There were hundreds of prestigious boutiques and restaurants in the district, bounded by Houston Street on the north, Crosby Street on the east, and Sixth Avenue on the west, and Canal Street on the
south; Chinatown stretched out below Canal Street, which made the SoHo store ideal to attract fashion-conscious Chinese consumers. The Madison Avenue store was located near the many Korean restaurants and retail stores on 32nd Street between Broadway and Fifth Avenue, known as the Korean District. As the Korean population had increased, the district expanded into surrounding streets.

Red Eagle’s stores mainly focused on Asian consumers in the New York City area because they were affluent and fond of Japanese-made products. However, the company could not aggressively target regular Americans due to a lack of large sizes. It imported merchandise from Japan, but Red Eagle did not make large sizes for the Japanese customers, nor could the two retail stores afford to carry their own inventory of large sizes. The buyer tried to negotiate with the manufacturer to reduce the minimum quantity, but the discrepancy was too large to overcome. Therefore, Koji decided to carry other well-known brands for large sizes. The stores also carried related items and accessories made by other firms in the New York stores.

Kojima, Okayama

Red Eagle was headquartered in Okayama Prefecture, Japan. Okayama was the birthplace of Japanese jeans, the history of which began around 50 years ago. After World War II, American military personnel started circulating jeans at secondhand markets. The first Japanese jeans were produced by Big John in 1965 in Kojima, Okayama (“What is Okayama Kojima denim?” August 28, 2013).

Production of jeans began flourishing in the 1970s. At that time, most Japanese denim came from Okayama. Top brands included: Momotaro, Dania, Saio, Senio, JapanBlue, Denim Closet, Edge of Line, MuuSan63, and others (The Kojima Chamber of Commerce and Industry, 2013).

In addition to the local producers, foreign high-end jean manufacturers purchased denim fabric in Kojima. Industry experts said Japanese jeans had come into their own through the use of unique production methods such as the traditional “aizome” indigo dyeing process. Over 100 family-run indigo and dyeing factories operated in Kojima, Okayama. The district was also the home of high quality sewing factories with experienced operators. They could sew any material from heavy denim to stretch fabric and delicate lace flawlessly.

The U.S. Denim Jeans Market

Denim jeans were invented by Jacob Davis and Levi Strauss for cowboys and miners. They patented the rivet-enforced clothing in 1872. The market enlarged as teens started wearing them in 1950s as casual fashion. Levi’s, Lee, and Wrangler were pioneers.

Worldwide jeans production had surpassed 2 billion pairs per annum, and the demand from affordable to high-end was steadily growing (Masangkay, November 26, 2013). In 2011, North America accounted for 39%, or $14 billion, of global purchases, followed by Western Europe at 20%, Japan and Korea at 10%, and the rest of the world at 31% (Agarwal, October 13, 2009; Binkley, July 7, 2011).
The global economic downturn in 2008 had a severe effect over the apparel industry, but the denim market regained its pace relatively faster than other apparel segments. Because of their comfort and durability, denim jeans had become a necessity and wardrobe staple regardless of age, gender, or ethnicity. Jeans had been accepted even in official and formal occasions. Denim was the most extensively produced apparel in the U.S., and the market was projected to grow further in years to come.

The top brands included Levi’s, Wrangler, Lee, Killer Jeans, Calvin Klein, Diesel, Mark Jacobs, G-Star, Ed Hardy, True Religion, Big Star, Nostrum, Pepe Jeans London, Spykar, and others. In addition, big-box stores and fast-fashion companies such as GAP, H&M, Zara, and Uniqlo had their own private labels. Prices ranged from $10 to thousands of dollars. Designer brands and custom jeans retailers offered high-end jeans. Red Eagle’s jeans, priced at about $200, were considered affordable luxury.

Red Eagle’s Marketing Activities

Objectives

Although sales had reached a break-even point for the two stores and the online shop, Koji was not satisfied with the performance. Due to substantial investments in order to open the two stores in Manhattan, the ROI (return of investment) was not as high as stores in Japan. Also, sales reached a plateau, and the growth rate was diminishing. Koji was also very uncomfortable about the fact that the business heavily depended upon Chinese customers.

The Chinese-American market was enormous, and there was still plenty of room for growth. However, the political tension had become high between China and Japan. Since the early 1970s, the two nations had disputed over a group of uninhabited islands (Senkaku in Japanese, Diaoyu in Chinese) in the East China Sea. In 2010, the captain of a Chinese fishing trawler rammed a Japanese patrol boat. His arrest by the Japanese Coast Guard infuriated Chinese people. A number of demonstrations took place in China and Chinatowns abroad. Some demonstrators became so violent that they vandalized Japanese department stores, factories, restaurants and offices. They also attacked drivers of Japanese cars regardless of their nationality. Although the violent demonstrations had eventually ceased, the political tension was not eased. Japanese Prime Minister Abe had never met the Chinese leader, Xi, since Abe was elected in 2012. Despite the political turmoil, however, Chinese consumers still liked Japanese products. They also enjoyed Japanese entertainment including animation, music, movies, TV shows, and video games. The number of Chinese tourists in Japan had steadily increased since the devastating earthquake in 2012. They also increased investment in Japanese real estate properties. Red Eagle’s Chinese customers seemed to be indifferent to the political disputes. They stayed loyal to the stores.

Koji was determined to expand the retailing business. Since Red Eagle had a flagship store in SoHo, Koji wanted to open smaller stores in other areas of New York City and its suburbs. However, he was not interested in wholesaling Red Eagle jeans to other retailers. He thought the
competition was too intense for an unknown brand from Japan to enter the wholesale business. The firm was not nearly as big as Uniqlo, which had opened a flagship store on Fifth Avenue with a $300 million, 20 year lease agreement. To make it a national brand, Uniqlo had invested heavily in advertisement too. Red Eagle did not have the same resources to develop a national brand.

From previous job experiences, Koji knew how difficult it was to break into the wholesale market. First, the firm needed to hire sales people who were well-connected to retailers in each region. Furthermore, there were only a handful of distributors who could talk to the buyers of major department stores and big box stores. The firm also needed to exhibit in tradeshows and advertise in trade journals. It was a whole different ball game from managing retail stores.

**Personal Selling**

When it came to retailing services, Red Eagle had a distinctive competence over its competitors. It had seven sales people at each store. Japanese expatriates who spoke fluent English managed both stores. There were two Chinese-Americans and two Korean Americans who worked full time. Three of them were trilingual, and one spoke perfect English and Korean. They served Asian and other customers comfortably in the stores, and communicated well with online customers using email, Facebook, Twitter, and other social media sites. The other staff members worked part-time, but they were all well trained with *omotenashi* philosophy. *Omotenashi* could be translated as “the spirit of selfless hospitality.” A good parallel to this in the U.S. was the kind of service customers received at the Ritz Carlton Hotel. In Japan, the merchant never took the equal footing with the customers, and constantly performed services beyond the call of duty, even at banks, big-box stores, local restaurants, and convenience stores.

Workers at Red Eagle paid a full attention to each customer. When a customer entered the store, he/she was greeted with a smile. Employees never talked to each other in front of customers, and no one used a cell phone in the store. When a customer needed help, an employee stopped whatever he/she was doing and immediately attended the customer. At Red Eagle, staff covered a shopping bag with a specially designed plastic sheet when it rained. On cold days, customers were given disposable heating packs. The stores always carried extra umbrellas, which customers did not have to return. Staff was trained to extend both hands when receiving a customer’s credit card, presenting merchandise, and handing over a shopping bag. It was a nice gesture to show politeness. Customers were escorted to the door and thanked with a smile when leaving. Each staff member was also equipped with proper knowledge about the products, manufacturing processes, technologies, styles and trends. They attended seminars and workshops periodically. Free on-site alterations were given while the customer was waiting for ten to fifteen minutes. The alteration ensured a proper fit. For pre-ripped jeans, the bottom was not just trimmed to adjust the length, the same treatment was made to keep the appearance.

The stores were kept extremely clean. Merchandise was constantly refolded and rearranged. When there were no customers in the store, the staff cleaned the shelves, windows, counters, and floors. They cleaned the bathroom several times a day to keep it spotless. They knew how difficult it was for their customers to find a clean bathroom in New York City. Also, a clean
bathroom signaled the quality of service to the customers. Red Eagle installed a high-end toilet and bathroom fixtures. They even provided with the most expensive, soft texture toilet tissues, facial tissues, and paper towels. When it came to customer service, they paid meticulous attention to minor details.

**Online Marketing**

The website was constantly updated with new product information, testimonials, and press contents that covered the private labels stores. Also, the official Facebook was updated frequently. Koji and other staff members had their own Facebook accounts. Red Eagle also sent newsletters and discount coupons via email to its customers on a daily basis.

Red Eagle stores were listed on Yelp, an online urban guide and a business review site. New Yorkers and tourists heavily relied on Yelp to find restaurants, shops, and entertainment. Reviews were based on a five-point rating system. Red Eagle’s stores received nearly perfect points with excellent comments. They also spent hundreds of dollars a month participating in Yelp’s advertising program, which enhanced the stores’ information with rotating photos and videos, and Red Eagle’s advertisements appeared on search result pages.

Each month, the stores spent $1,000 for Google AdWords that offered pay-per-click advertising. An advertisement appeared on the right side of search results as sponsors’ links or the top of the search results with a yellow “Ad” logo that identified it was a sponsor’s link.

Weibo was the most important online marketing tool for the stores. Weibo was a Chinese word meaning microblogging. It was one of the most popular Internet sites in China with over 500 million users, and 300,000 corporations with their own accounts (Xu, 2013). About 120 million messages were posted each day. Just like Twitter, users could post 140-word messages, but Weibo was more comprehensive as it integrated email, apps, and games.

Weibo did not post banner ads. Instead, it developed KOLs (Key Opinion Leaders), who had millions of followers. They played the roles of advertising media vehicles: their postings became advertisements for corporate accounts. Red Eagle’s Weibo site had accumulated a sizable following, and it had contributed greatly to the firm’s online sales. It was also a very important source of information for Chinese consumers.

Contrary to the success in reaching out to Chinese customers, Red Eagle had a hard time breaking into the Korean market. Culturally, Korean communities were extremely close-knit, and even Koreans had difficulty getting into the inner circle of a different group. Chinese customers tended to make purchasing decisions based on rational factors such as quality, price, and design. Koreans, on the other hand, strongly preferred well-recognized brands such as Armani A/X, Calvin Klein, and DKNY. Red Eagle had neither a proper network nor a well-recognized brand name. Since they were extremely beauty and fashion-conscious, the company really wanted to break into the market; the staff started communicating with customers using Korean Facebook, but they needed to make more effort.

**Positioning**
Unlike Japanese stores, Red Eagle operated multi-brand specialty stores in New York. Since they needed to carry large sizes and other related items such as jackets, bags, hats, and shoes, it was impossible to fill the shelves exclusively with Red Eagle’s merchandise.

Koji wanted to position Red Eagle as multi-brand specialty stores with Japanese hospitality (omotenashi). He thought it would be an excellent way to differentiate Red Eagle from other retailers. He also believed that American customers would appreciate the unparalleled level of service. Koji insisted on promoting the store services rather than the brand. However, executives at the headquarters strongly opposed the idea. They insisted on promoting Red Eagle as a premier Japanese jean brand. They thought promoting the brand would increase retail sales and eventually find the opportunity to wholesale to other retailers. They were not interested in promoting the services. It was possible that they did not realize the superiority of their services, since they had little experience with other retailers in the U.S.

Koji thought carrying famous brands in the stores would be a nice addition that was worth mentioning. However, Japanese executives insisted on not mentioning the other brands in their advertisements. Red Eagle stores in Japan were like Uniqlo, Zara, and H&M, that exclusively carried their own private labels. The executives, therefore, thought mentioning other brands in advertisements would confuse customers. They were also afraid that in the long run, when Red Eagle grew large enough to carry only Red Eagle products, the wrong brand image could haunt them back.

Koji had to acquiesce to the Japanese directive. They never mentioned that the stores carried other brands in its website, advertisements, or social media. Customers who visited the stores learned that there were a wide variety of brands to be found once inside the venue.

Public Relations (PR) Activities

Red Eagle hired a local PR agent eight months ago. It cost $5,000 per month and hundreds of dollars in expenses such as transportation, meals, mailing, and printing. Koji thought media exposure was essential. Also, he needed some help to develop promotional tools such as posters, pamphlets, and postcards. Although it was expensive, Koji convinced the headquarters to pay for the agent’s fees. Needless to say, PR activities focused on the brand, not the stores. They did not even mention the omotenashi service.

The first few months, the agent contributed tremendously. She helped develop the store’s website, pamphlets, and posters. They all looked professional and were very appealing. She also organized fashion shows for customers, media, and bloggers. Periodically, customers were invited to in-store mini fashion shows and cocktail parties. Also, Red Eagle and neighbor stores together invited their customers to a street fair. They gave common discount coupons, and served a light snack and drinks. These events were all organized by the agent.

A major problem was that Red Eagle had absolutely no major media appearance for eight months. In Japan, the brand had constantly appeared in network TV shows, fashion magazines,
newspapers, and radio shows. The agent was very apologetic, and told Koji that he could cancel the contract which had four more months left to be expired. Koji wanted to continue working with the agent. Nationally distributed magazines, newspapers, or network TV shows were not interested in Red Eagle jeans. However, Koji thought he had a fair chance appearing in local media if a press release featured the *omotenashi* service. But first, he needed to convince the Japanese executives.

### Japanese Management Style

Japanese culture was high in power distance. Organizations in this type of society were characterized by centralizing authority, autocratic leadership, strict obedience, paternalistic management, many hierarchical levels, and an expectation of inequality. The US culture, on the other hand, had much smaller power distance. Organizations tended to be flat, authorities and decision making responsibility were decentralized, and management style was consultative.

Japanese culture was also high in uncertainty avoidance. People in this culture were adverse to risk. There were many written rules and standardized procedures. Consensus was valued, and the tolerance for deviants was limited. Americans were much less troubled by uncertainties. They tended to take more risks. They were result-oriented, and not concerned about the process. They were also flexible and tolerant of different opinions.

Koji, who was educated and trained in the US, was often frustrated by the headquarters’ management style. He strongly believed that those who were at the firing line should have made managerial decisions, not the ones who were thousands of miles away. He was also willing to be held accountable for his decisions. Koji was also concerned about the productivity since he and his staff consumed a considerable amount of time for communication (e-mail, Skype, and traveling) with the headquarters.

### References


