



Building Inclusive Supply Chains:

LESSONS LEARNED

IN PARTNERSHIP WITH



MUJI

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ACRONYMS

ASEAN	Association of Southeast Asian Nations	ILO	International Labour Organization of the United Nations
BCI	Better Cotton Initiative	JICA	Japan International Cooperation Agency
BctA	Business Call to Action	MGS	MUJI Global Sourcing Private Limited
BOP	Base of the Pyramid	MUJI	Ryohin Keikaku Co., Ltd.
BW	Better Work Program	NGO	Non-Governmental Organization
CBO	Community Based Organization	OVOP	One Village One Project
CSR	Corporate Social Responsibility	SDGs	Sustainable Development Goals
IFC	International Finance Corporation	UNDP	United Nations Development Programme

NOTES

All amounts given in dollars are in U.S. dollars unless otherwise indicated.

IFC defines base of the pyramid (BOP) as men and women who are either low-income earners or who lack access to basic goods and services. The low-income segment is commonly considered to include people earning up to \$8/day in purchasing power parity terms (G20 Inclusive Business Framework).

Introduction

In Japan, contributions from the private and public sectors have accelerated efforts to meet the Sustainable Development Goals (SDGs). Businesses that see opportunities in the SDGs are implementing a variety of initiatives. MUJI, a Japanese retailer of household and consumer goods, is an example of a company that has addressed social challenges through its core business. When developing a product, MUJI considers its impact on the quality of life and the environment of its suppliers. It procures basic materials in ways that aim to respect human rights and the environment. By working with local suppliers, the company has developed products in countries such as India, the Kyrgyz Republic, and Tanzania using organic cotton and methods of dyeing that use natural materials. Additionally, MUJI improved the quality of its products while enhancing the productivity and earnings of its suppliers.

The SDGs, adopted by the United Nations General Assembly in 2015, include a call to address developmental challenges through partnerships with the private sector. Achieving the SDGs by 2030 will require an estimated \$5 to \$7 trillion of annual investment into developing countries, including \$1 to \$2 trillion from the private sector.¹

In recent years, a global trend of increased involvement of the private sector in international development has emerged. Companies are aiming to drive social impact as they develop their businesses, and have many opportunities to change their social and environmental impact for the better, for example, when setting up supply chains, developing

their overseas businesses, developing products, and tailoring services.^{2,3} Social and environmental initiatives are increasingly seen as going hand in hand with efforts to enhance labor productivity, reduce poverty, and improve environmental sustainability through changes in production processes.

Many global companies have taken innovative approaches in developing their businesses while contributing to the SDGs. One apparel manufacturer in the United States creates financial incentives for its garment suppliers in developing countries to improve their operations. The company encourages its suppliers to improve their environmental, health, safety, and labor standards and works closely with financial institutions to offer short-term, low-interest financing to those that show improvements.⁴ It has established a good track record under its social and environmental monitoring system. Another clothing manufacturer encourages its suppliers in developing countries to transition to digital payments using mobile money, which improves the lives of workers, enhances transparency by creating a digital record of all transactions, and reduces the overall costs incurred by the suppliers. By integrating employees without access to financial services into the formal financial system, the company contributes to economic growth and improves financial inclusion.^{5,6}

A growing number of companies recognize that environmental and social management and good financial performance are closely related. One company, for example, works with the Rainforest



Alliance, which supports corporate sustainability by helping firms make their agricultural and forestry supply chains more inclusive. Other companies develop their businesses in ways that are socially, environmentally, and economically responsible by working closely with non-governmental organizations (NGOs) and industry groups that can address particular issues in knowledgeable and comprehensive ways.*

IFC has been supporting MUJI in its efforts to build and expand its inclusive supply chain since 2015, with the overarching objective of increasing income-generating opportunities for its emerging market suppliers at the base of the pyramid (BOP). MUJI takes a unique and sustainable approach to building global inclusive supply chains. It is committed to creating inclusive markets and implementing good

MUJI and COVID-19

As of the time of finalizing this research, there was uncertainty around the effects of the COVID-19 pandemic crisis and longer-term implications on MUJI's supply chains. The company is finding ways to mitigate the COVID-19 crisis and is continuing to protect its stakeholders, including employees, suppliers, customers, as well as its brands, and build strong relationships. The authors expect that the trend towards making businesses more sustainable and inclusive will continue post-COVID-19, and companies like MUJI and others that share similar values will continue their efforts to make their supply chains more inclusive and sustainable.

global social and environmental practices. IFC supports the private sector by providing investment and advisory services, in sequence or concurrently. IFC first engaged with MUJI through its advisory services to help MUJI secure trusted relationships with low-income suppliers. IFC and the International Labour Organization (ILO) also support MUJI through the Better Work Programme to improve productivity and working conditions in garment factory workers in Cambodia and Vietnam (22 factories as of January 2021), and to improve MUJI's own standards.

In 2018, IFC initiated an in-depth research project to (a) capture progress made towards building an inclusive supply chain, (b) gain insights from all stakeholders in the development of the inclusive supply chain, (c) highlight key challenges and opportunities stemming from engagement with small producers of varying capacities in MUJI's global value chain, and (d) draw lessons from MUJI's experience.

Collaboration with MUJI also aligns with IFC's general strategy and approach,¹⁰ emphasizing the importance of engaging with international brands to help suppliers meet labor and environmental standards and have a greater impact along the value chain and the communities that rely on them. Global brands like MUJI have substantial influence on the behavior of suppliers throughout the value chain, from how raw materials are grown to how garments are produced and sold.

* One company in the United States, in cooperation with the Better Cotton Initiative (BCI)⁷ committed to transitioning to 100 percent organic cotton by 2020⁸ while another committed to transitioning to sustainable procurement of all lumber, paper, and cardboard by 2020.⁹ Other companies implement the Higg Index, an environment assessment standard developed by the Sustainable Apparel Coalition that helps fabric mills monitor working conditions and reduce energy and water use.

This report provides an overview of MUJI’s business and sourcing strategy in building inclusive supply chains. It is based on IFC research, including interviews and surveys conducted with key stakeholders (suppliers, management, consumers, and employees) and demonstrates how a private sector company builds an inclusive supply chain. We hope that this report will provide valuable insights on good practices in incorporating small producers into global value chains.

Please note that in this report an “inclusive supply chain” is one that includes suppliers and producers in developing countries, while an “inclusive business” is one that brings people living at the base of the economic pyramid—those who are poor or who lack access to basic goods and services—into value chains as suppliers, distributors, retailers, or customers.

BOX 1. History of IFC’s engagement with MUJI

	DESCRIPTION OF ACTIVITIES	YEAR
Inclusive Award	IFC awarded MUJI the <i>IFC Inclusive Business Leaders Award</i> , which recognizes companies using inclusive business models to integrate producers into their value chains. IFC evaluates its client companies based on their business models, development results, and social, environmental, and financial sustainability.	2013
Supply Chain	IFC supported MUJI’s efforts to build an inclusive supply chain and improve the quantity and quality of products from suppliers (such as rural artisans and/or smallholder farmers) at the BOP in developing countries. IFC provided advisory services to MUJI to support its ability to develop suppliers through product development and by sharing knowledge and expertise in developing countries. Products include organic cotton in India, Tanzania, and other countries, and felt products made with natural dyes in the Kyrgyz Republic. IFC supported over 100 training sessions for more than 1,000 suppliers in developing countries. Finally, IFC provided advice on market development to producer groups in the Kyrgyz Republic.	2015–2018
Better Work	MUJI joined the Better Work (BW) Programme, a collaboration between the ILO and IFC. The BW program is implementing comprehensive initiatives to improve productivity and working conditions in garment factories in developing countries. BW aims to ensure working conditions meet international labor standards and national labor laws and regulations. BW conducts assessments, provides training and advice, and facilitates dialogue between management and workers of garment factories. As of January 2021, MUJI’s 22 factories in Cambodia and Vietnam have joined BW.	2016–today
Supplier Development	IFC partnered with the World Bank Group’s Finance, Competitiveness, and Innovation (WBFCI) Global Practice to explore potential benefits of bringing artisan producers into retail supply chains through aggregator firms in developing countries. The team chose 80 companies out of 180 supplier groups and aggregators based on criteria agreed upon with MUJI. The survey results prepared by the WBFCI and IFC team enabled MUJI to explore a new method of reaching small scale artisan producers.	2017–2020

MUJI's Approach to Building Inclusive Supply Chains

THE CASE OF MUJI: BUSINESS, SUPPLY CHAIN, AND SOURCING STRATEGY IN EMERGING MARKETS

Business Overview

The Japanese retail company Ryohin Keikaku Co., Ltd. owns the MUJI brand and is responsible for its planning, contract manufacturing, and sales. This report will use the brand name “MUJI” to refer to all activities of Ryohin Keikaku.

MUJI was founded in 1980 as a retail store selling household and food products operating as part of Seiyu Group and was spun off in 1989. MUJI now operates 976 stores in total, including 458 stores in Japan—420 of which are MUJI—and 517 stores in another 27 countries and economies including in Asia (Australia, China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, China, and Thailand), Europe (France,

Germany, Ireland, Italy, Poland, Portugal, Spain, Sweden, and the United Kingdom), North America (Canada and the United States), and the Middle East (Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates).

As of February 2019, MUJI produces 7,375 items. Of these, 1,691 were clothes and fashion items, 5,148 are household products, and 536 are foodstuffs. MUJI has also branched out into other areas, including campground operations, cafés, and restaurants. As of February 2019, MUJI had a consolidated operating revenue of 409,697 million yen (approximately \$3.71 billion), with 19,370 employees, including 10,233 temporary workers.

Supply Chains

The overall workflow from product development to sales is the same for MUJI as for other store brands.¹¹ It begins with internal product planning based on a

Stages of New Product Development to Sales



Internal product planning based on a market analysis



After a product is approved, specifications are prepared



Contract manufacturers are located



Orders are placed



Goods are manufactured



Final products are sold primarily through MUJI

market analysis. Once a product is approved, specifications are prepared. Then contract manufacturers are located, orders are placed, and goods are manufactured. The final products are sold primarily through MUJI's physical stores as well as its online store.

MANUFACTURE

MUJI is involved in many phases of product development but does not own any factories. Instead, MUJI outsources the manufacturing of its 7,375 products to factories run by third parties located in China, Japan, and member nations of the Association of Southeast Asian Nations (ASEAN). Currently, MUJI has about 1,000 suppliers. The percentage of suppliers from China has been reduced from 90 percent to about 20 percent, with production shifting to Cambodia, Thailand, and Vietnam and beginning to expand in Bangladesh. Since 2018, there have been suppliers in Poland serving the European market. The company is also developing a supplier base in Turkey to serve Europe.

Because MUJI handles such a wide variety of products, it generally does not deal directly with partner factories. Its sourcing system typically involves intermediaries like trading companies and manufacturers. MUJI Global Sourcing Private Limited (MGS) plays a pivotal role in this sourcing system. MGS is a wholly-owned, Singapore-based subsidiary of MUJI established in 2006 to help with sourcing, especially in China, India, and Southeast Asia. MGS has built close relationships with local producers to ensure an uninterrupted supply of products for MUJI. Through two-way communication with producers, MGS shares MUJI's product concepts with local producers.

LOGISTICS

Since MUJI stores are located all over the world, the company regularly reviews its logistics to make sure

its products get from the countries that produce them to the countries that sell them. For example, for certain products from China, MUJI established a logistical system that allows products to move directly to stores without the need for them to travel through Japan.

Balancing the needs of producers with environmental concerns has led MGS to source materials through a mutually beneficial fair-trade model. In recent years MGS has received many requests for lower prices and faster delivery times. These requests mostly go to the countries that produce natural raw materials such as organic cotton, feathers, and wood used for furniture. MGS also recommends reforms to the trading process to improve artisan productivity and increase the number of products that are produced by artisans and sold in global markets.

MUJI emphasizes the importance of maintaining harmony with nature and improving the producers' working environment when it procures materials. That reflects MUJI's broader policy toward product development, which rests on the principles of material selection, process streamlining, and package simplification, and is defined by keywords such as *natural*, *anonymous*, *simple*, and *global*.¹² Under this policy, MUJI reaches out to producers for continued cooperation throughout the product development process.

Quality Standards

Before outsourcing its production, MUJI inspects production factories to make sure they meet its quality management requirements. MUJI outsources production only to those factories that meet the "Ryohin (or "high quality goods") Standards (Figure 1). MUJI requires its partner plants to comply with these standards before inspections. It provides direct instructions on how to address non-compliance to factories that do not meet its standards. These

standards ensure that MUJI can provide consistent, high-quality products while working with a variety of factories in various fields.

In line with its unique brand concept of “no-brand, quality goods” at lower-than-usual prices, MUJI seeks to provide consistent, high-quality products that satisfy global consumers and earns their trust.

Regarding the guidelines for outsourced factories on the standards related to the natural environment, labor, safety, and procurement, MUJI explains:

“Quest Value, Positive Spiral, and Best Partnership are at the heart of what we do. Guided by this

philosophy, we respect the human rights of all the people involved in our products, including those working for our clients and suppliers, while maintaining proper working conditions for them. In 2007, we created a code of conduct for our group and partners called Ryohin Keikaku Environment, Labor and Safety Management. In 2015, to accelerate our efforts, we established the Ryohin Keikaku Basic Policy for Environment, Labor, and Safety, which built on the Ten Principles of the UN Global Compact and the Core Labour Standards of the International Labour Organization. We also updated our code of conduct so that it includes the core materials procurement guidelines and the labor guidelines.”¹³

FIGURE 1. MUJI's Ryohin Standards

	ITEMS
Product Standards	Product tag information requirements (material, size, country of origin)
	Visible conditions/appearance (for example, cleanliness, scratches)
	Safety standards (complies with laws and regulations)
	Product testing
Production Standards (items to be inspected at the production sites)	Management standards for quality control system
	Management standards for raw materials management and storage
	Raw materials and parts inspection standards/management standards
	Relaxing shrinkage cleared away conditions and management standards (textile)
	Management standards for working conditions of the processing and assembly lines
	Management standards for workflow management
	Management standards for hazardous materials
	Management standards for instructions
	Management standards for operators
	Management standards for production quantity control
	Management standards for machinery and equipment
	Management standards for product inspection
	Management standards for tagging and labeling
	Management standards for packaging, storage, and shipping
	Management standards for delivery and quality problems
Management standards for straightening up, setting in order, standardizing and cleaning up in the factory	

SOURCE: MASUDA, OHIRA. 2017.

At the recommendation of IFC, MUJI joined the Better Work Programme (BW)¹⁴ in 2016 through some of its apparel factories located in Asia. BW is a partnership between ILO and IFC that brings diverse groups together—governments, global brands, factory owners, unions, and workers—to improve working conditions in the garment industry and make the sector more competitive. MUJI is one of three Japanese companies that are members of BW. MUJI benefits from the information and network available through BW but also being part of the official, global program to improve labor practices of suppliers. Since MUJI joined BW, it has been able to effectively communicate its approach regarding sustainability and respond to questions from various stakeholders, especially in regard to addressing critical labor issues in supply chains and improving working conditions of factory workers. Joining BW helped MUJI demonstrate its commitment to safe labor conditions of suppliers.

While expanding its retail operations globally, MUJI is now considering changing its sourcing structure. Its Midterm Business Plan from 2017 to 2021 states that “improvement of its global supply management” is one of the company’s priorities. “By continually repeating the ‘Plan-Do-Check-Act (PDCA)’ cycle along our supply chains, we can build an efficient sourcing process based on a global perspective. Greater efficiency in inventory management through the improvement of sourcing flow will enable us to cut our warehouse stock by 50 percent at distribution centers. We are also pushing ahead with our efforts to offer unique items with affordable prices to our customers.”¹⁵ In sum, MUJI pursues the goal of improving its sourcing structure while continuously building good relationships with producers.

MUJI'S INCLUSIVE BUSINESS ACTIVITIES

Inclusive Business Initiatives with Development Partners (JICA, IFC, UNDP)

HOW MUJI'S INCLUSIVE BUSINESS PROJECT STARTED

The “MUJI x JICA Project” is MUJI’s flagship inclusive business project.¹⁶ It started in 2011 with MUJI’s desire to develop ethical Christmas gifts whose purchase would show support for addressing social challenges. MUJI looked into possible collaboration with the Japan International Cooperation Agency (JICA), which promotes international cooperation. JICA supports various projects that revitalize rural areas in two ways: it helps stimulate local industry first, by encouraging manufacturing using local raw materials, and second, by marketing products nationally and/or internationally.

When MUJI and JICA began to look into the feasibility of collaboration, they had different goals and expectations. MUJI hoped to gain credibility and trust from customers through a partnership with the government and to secure support for product development. MUJI’s product developers also knew of the difficulties entailed in commercializing new products in developing countries. On the other hand, JICA was seeking a good sales channel for products related to a project it supported called *One Village, One Product* (OVOP), which provides and education and training technology and skill development to producers.¹⁷

Collaboration with a private sector company would enable producers to both earn cash income and learn how to conduct business with overseas retail

businesses while achieving global recognition. These factors drove JICA to collaborate with MUJI.

Against this background, MUJI requested that JICA provide product information and determine whether producers would be able to produce about 3,000 units before MUJI's deadline for a Christmas delivery. JICA presented proposals for approximately 80 items, all of which would be manufactured in developing countries with support from JICA. MUJI's product developers reviewed the proposals and chose wool felt products from the Kyrgyz Republic and soapstone products¹⁸ from Kenya. During the product selection process, MUJI considered the attractiveness of the materials used for the products and the potential for successful commercialization. The original proposals from both Kenya and the Kyrgyz Republic came with samples that were partially dyed, but MUJI, eliminated the coloring step because extra dyeing could increase the cost of manufacturing, would require scientific

analyses of the dyes, and would create a risk of color loss during commercialization. MUJI also wanted to keep the original color of the felt and soapstone. MUJI believed that maintaining the original, unbleached color of wool and avoiding adding extra colors would reflect the company's product development values.

MUJI'S COLLABORATION WITH LOCAL SMALL-SCALE PRODUCERS IN KENYA AND THE KYRGYZ REPUBLIC (2011-13)

Once the selections had been made, MUJI's product developers and designers checked samples repeatedly, calling for improvements in quality and modifications to the design. The artisan groups in Kenya and the Kyrgyz Republic accommodated all of MUJI's requests and addressed all of the problems MUJI pointed out.



SOAPSTONE MADE IN KENYA (SOLD IN 2012).



WOOL FELT PRODUCTS MADE IN THE KYRGYZ REPUBLIC (SOLD IN 2012).

MUJI and JICA both had important roles in the project. MUJI was responsible for product development, design, order placement, sales, and provided guidance to artisans. JICA provided for technical assistance and supported education for local artisans through the *One Village, One Product* project. In the Kyrgyz Republic, the majority of the producers were women with no prior experience making felt products. On multiple occasions, experts from JICA held workshops to teach felt artisans the technical skills necessary for successful manufacturing. In Kenya, the artisan groups had more experience with non-profit organizations, including exporting their products to Europe and other areas. JICA Kenya thus primarily supported communication between MUJI and the producers. For example, JICA Kenya stepped in and directly contacted the artisan groups when MUJI could not get responses to its inquiries. JICA Kenya explained the rationale to the artisans from MUJI's perspective: A quick response was important. At the same time, JICA Kenya explained to MUJI why it should not expect to receive immediate responses as there is less access to instant communication tools in Kenya, even though the artisans were used to email communication with Europe and the United States. Through such communications, JICA Kenya helped build mutual trust.

During the first year of this project, the Kenya project and the Kyrgyz Republic project received an order for 4,000 units and 10,000 units respectively. The artisans only narrowly met the delivery deadline. As they gained experience in the second and third years, the producers made substantial improvements in both managing schedules and product quality. The joint project in Kenya was completed at the end of the fourth year. By that time, the artisans in Kenya had shown significant improvement. Building on their experiences as full-fledged artisans with

experience in business, they were able to take on more contracts from other buyers. MUJI observed opportunities for further improvement and growth in terms of producers' technique and production management, and decided to continue with the joint project in the Kyrgyz Republic after the first year.

Over a period of time, the final products were promoted and sold as Christmas gifts. They were promoted as "an embodiment of MUJI's support." MUJI's brochures promoting the products globally explained how the company supported the artisans, making it one of the selling points of the products. Responses from consumers were positive, with the majority of consumers finding the story "*kawaii*" or "cute" in Japanese. In big Christmas markets, such as those in Europe, they sold very well. With its customer base growing, and wishing to symbolize its support for the artisans in Kyrgyz Republic, MUJI decided to continue selling the products.

INTERNATIONAL RECOGNITION

The MUJI x JICA collaboration attracted attention from the media and international organizations. It was seen as an example of a private sector company providing support for developing countries through its core business. In May 2013, MUJI received approval to join the Business Call to Action (BCtA), led by the United Nations Development Programme (UNDP).

With such recognition, the continuation of the joint project became even more significant, both inside and outside of MUJI, especially as BCtA member companies are required to report their annual goals for projects.

During the first period of the project, the Director and General Manager of MUJI's Household Division visited the project site. It was the first visit by the management, and it demonstrated that senior members of the company understood the importance of the project. By visiting, he provided support to the idea that a company can contribute to economic development through its core business of product development. Proactive engagement by management helped pave the way for joining the BCtA. In October 2013, MUJI received IFC's Inclusive Business Leader Award.

MUJI'S CONTRIBUTION TO DEVELOPING SKILLS OF PRODUCERS IN THE KYRGYZ REPUBLIC (2014 TO 2019 AND ONGOING)

Since 2014, MUJI has regularly placed orders for Kyrgyz products and expanded its product offerings from felt products to items for home use such as seat cushions and small boxes, as well as fashion accessories such as scarves, necklaces, and slippers. The wool felt in the products is highly valued for fall and winter products, especially Christmas gifts, which are available for sale every year.



In 2015, IFC agreed to provide advisory services to support MUJI's efforts to accelerate its inclusive business activities to (a) upgrade the technical skills of artisans or farmers through a skills training program and workshops, (b) organize workshops for improving quality and product control, creating export documents, and monitoring quality control, (c) organize seminars, workshops, and other promotional activities for training and capacity building for local artisans in Japan, providing them an opportunity to learn from designers with market knowledge, and (d) conduct research and development for new business opportunities with local suppliers in places where MUJI buys materials. Through IFC's global network, MUJI received technical support for its product development, similar to that in the Kyrgyz Republic.

In 2016 the Kyrgyz factory met all of MUJI's quality standards and was registered as a MUJI certified factory.¹⁹ Since the beginning of the project, MUJI sent people in charge of production management to the Kyrgyz Republic to identify problems and provide guidance in addressing them. Registration meant the plant complied with the Ryohin Standards, establishing a reputation as a factory that MUJI could trust. Registration also meant that the factory was no longer required to export all its products to Japan before re-exporting them to other countries. Once registered, it could export products directly to countries in Europe, and it did so beginning in 2017.

The producer groups in the Kyrgyz Republic evolved into an organization with a secretariat called OVOP+1. JICA experts involved with OVOP+1 helped organize business development activities for the producers.²⁰ The OVOP+1 and local producers participated in exhibitions, receiving small orders that gradually grew.

The leader of the project and OVOP+1's management team regarded registration as a certified factory as an important goal for product development in the Kyrgyz Republic. Unfortunately, even though the factory met management standards and thus was eligible to deal with products in the same way as the other certified factories, OVOP+1 had not reached the same level as other MUJI suppliers in other aspects of production. For instance, JICA or trading companies had to step in to cover gaps observed in new product and design proposals. OVOP+1 also needed assistance with communications during business negotiations, which, due to language problems, were not always smooth.



The project in the Kyrgyz Republic also involved consultation, through IFC, with the OVOP+1 on developing new markets for local producers, such as the United States, which would mitigate the risk caused by excessive reliance on MUJI as the sole buyer of their products. The producers decided not to seek new markets after thorough consultation with MUJI and IFC, due to the decision of the OVOP+1's management to focus on the regional market and its marketing strategy. The consultation gave the producers an opportunity to become self-reliant after making progress both in terms of developing their skills as artisans and as an organization. Additionally, IFC shared information with MUJI on the network of artisan aggregators, who work with small-scale artisan producers of home accessory and fashion products.²¹

Product Development Led by MUJI Global Sourcing

MGS is a wholly-owned subsidiary of MUJI that provides sourcing and is a part of MUJI's product supply system. IFC provided advisory services to MGS as part of its support for MUJI's development of an inclusive supply chain. The support from IFC helped MGS (a) provide production and manufacturing advice to MUJI partners working with small-scale artisans and farmers, (b) dispatch experts to production sites, (c) conduct research and development to improve its means of quality control, and (d) develop and maintain partnerships. MGS regularly places orders for eco-bags made in Lao People's Democratic Republic (Lao PDR) and for organic cotton and naturally-dyed products from India. MGS sends its staff to local manufacturing sites to build relationships with artisans.



ECO-BAG MADE IN LAO PDR (SOURCE: RYOHIN KEIKAKU HP, RYOHIN KEIKAKU 2011).

FABRIC ECO-BAGS (LAO PDR)

Production of fabric eco-bags started in 2011 when MGS signed a contract with producers in Lao PDR. The producers sew bags and dye their products with natural materials such as indigo. The simple eco-bag is made of cotton. MGS places orders for the bags regularly, and they are generally available at most MUJI stores. The orders create jobs and provide a regular income²² for the artisans. MGS and MUJI stay in regular contact with the sites that are involved in product development or management, providing advice on production techniques and management methods. Such contact encourages local artisans to continue their efforts to improve their skills so that they can provide consistently high-quality products.



ORGANIC COTTON (INDIA)

MUJI implemented an initiative to promote the use of organic cotton in its products. Research shows that products with organic cotton are highly recognized by MUJI's customers as well as its employees—organic cotton has become representative of the MUJI brand. MUJI mainly uses organic cotton from India, although it has used organic cotton from Tanzania in the past.²³ One key supplier, called Company A, located in the city of Pollachi, is MUJI's long-term partner in building an organic cotton supply chain and is MGS's only client in South India working with organic cotton yarn. Their collaboration starts with cotton selection, which needs to be carried out carefully to ensure a reliable supply of high-quality organic cotton. MGS and Company A visit local production sites together. MGS also shares information about each step of its manufacturing process with the president of Company A, including the cotton varieties it uses and their prices.²⁴

All of MUJI's cotton and naturally-dyed products produced in India use organic cotton. The products are sourced, dyed, and sewn into final products in India. The dyes, which are derived from natural resources such as indigo, are eco-friendly and safer for the producers' health than chemical dyes. MGS and MUJI production management and product development teams have maintained a long-term business relationship with the local producers, which met all standards MUJI set for local production sites, ensuring a stable supply of high-quality cotton for the company.

ORGANIC COTTON - SHINAYAKA TOWELS:
RYOHIN KEIKAKU SOLD IN 2020.

IFC ADVISORY—PROJECT ASSESSMENT AND FEEDBACK FROM STAKEHOLDERS

As described earlier, IFC has supported MUJI's efforts to build its inclusive supply chain, with advisory services supporting a range of activities to improve the quantity and quality of products produced by small-scale producers, including women artisans. IFC also conducted independent research to gain insights from relevant stakeholders, including artisan suppliers, MUJI employees and consumers. In this section, we present the findings from that research.

Small-Scale Producers (Artisans)

SUMMARY

IFC conducted research to learn how MUJI's activities in the Kyrgyz Republic, which focus on product and capacity development, have affected artisans, their economies, and their social activities. IFC analyzed a wide range of aspects of the project from the perspective of the artisans to draw lessons learned that could inform future operations. Starting in July 2018, IFC²⁵ conducted interviews with 119 artisans (all of whom were women) in five regions in Issyk-Kul in the Kyrgyz Republic. During two months of research, IFC learned about the lives of the producers, their jobs, their levels of income, and their general perspective to better understand the economic and social benefits of their collaboration with MUJI.

FINDINGS

From the perspective of the artisans, the collaboration between MUJI, OVOP+1/JICA, and IFC had a positive impact—on their economic activities, opportunities for development, social skills, and their daily lives.

Impact on Economic Activities and Livelihoods

CREATING OPPORTUNITIES FOR SMALL SCALE PRODUCERS TO INCREASE THEIR INCOMES

This project provided opportunities for artisans to increase their income. Over 80 percent of the people interviewed reported an increase in their household net incomes.²⁶ Among poor artisans (33% of total interviewees), 87 percent saw an increase in their income, indicating that the work had a positive impact on the poor (Figure 3). MUJI's system directly links the amount of work one performs to the amount of income received (as long as it meets certain standards)—that is, the more you work, the more income you make. The research found that the poorer a person was, the more hours per week she would work (Figure 4), and the less likely she was to

FIGURE 2. Background of producer interview participants, Kyrgyz Republic

Region: 5 districts/rayons (Tong, Issyk-Kul, Ak-Suu, Jeti-Oguz, Tup) in Issy Kul Region in Kyrgyz Republic (GDP \$1,220 per capita per year)

Poverty level: 33% live below Kyrgyz poverty line (\$3.2/day) compared with the population of Issy Kul (23%), country as a whole (19%)

Average annual household income:

\$2, 382 (KGS173,684)

Average age:

46

Average household numbers:

5.1/household

Gender of participants:

100% female

Head of households:

21%

Average years of selling to MUJI:

3-7



FIGURE 3. 87% of poor households increased their income

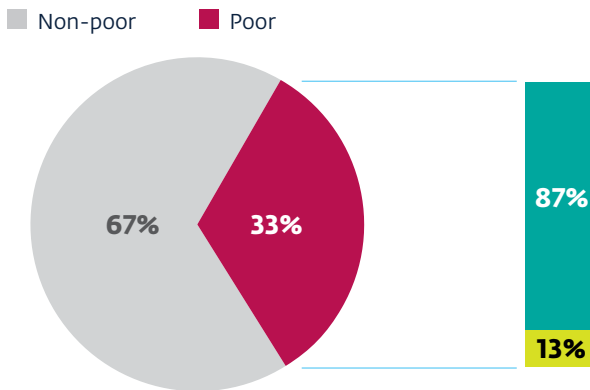
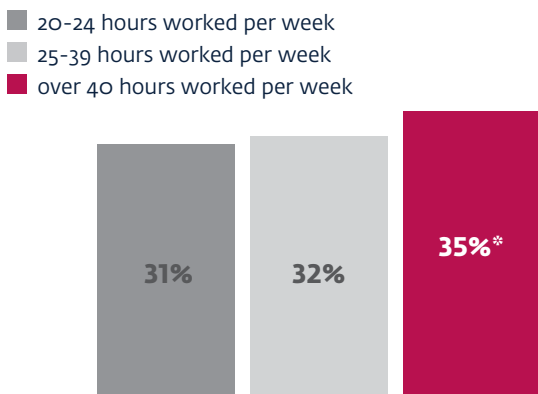
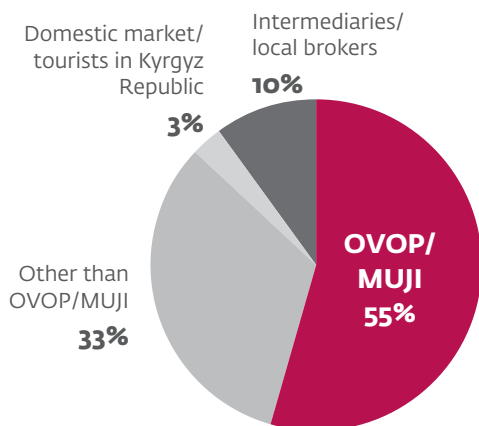


FIGURE 4. Levels of poverty relate to hours worked per week



* Thirty five percent of interviewed artisans who work over 40 hours per week, tend to live below poverty line.

FIGURE 5. Total share of artisan's revenue from different buyers (2017)



have any other job. For about 30 percent of the respondents, MUJI/OVOP+1 was the only client to whom they sold their final products. In 2017, more than half of the total income of all the artisans came from business with MUJI (Figure 5). Sixty-eight percent of the artisans allocated their income to regular household expenses, such as their children's tuition, food, or clothes. Fourteen percent used their income for personal business or to refurbish their houses.

MUJI's Ryohin Standards, which are international quality standards, hold artisans accountable for developing their skills and managing product quality. They also encourage artisans to develop self-discipline and a sense of responsibility for meeting the requirements set out in their contracts, including the delivery of products by specific deadlines. The artisans view the standards as goals and find meeting them rewarding. According to the team leader for the JICA project, a change in attitude was observable among many of the producers. They believed that they had something more than a routine job making felt products, and were willing to learn to make products that are satisfying and appealing to their clients and end-users. Respondents also gave positive



feedback about the collaboration between MUJI and OVOP+1, making statements such as “I now have marketable skills” and “this project requires me to challenge myself to produce high-quality products every year, and this constantly gives me opportunities to grow.” Artisans joined the felt project voluntarily. Those who had other income sources participated because (a) they were interested in making felt handicrafts, which reflect their culture and tradition (24 percent), and (b) the project offered flexible working conditions, including the option to work from home, which allowed them to strike a good balance between domestic work and other side businesses (13 percent).

Feedback From OVOP+1:

The CEO and her staff at the artisan group OVOP+1 provided valuable feedback. The initial idea for MUJI’s product development was to keep the design simple and easy so that local artisans could replicate it. But as OVOP+1 staff gained experience with MUJI, they gained confidence that their products would be recognized and would sell in global markets. With the factory registered as a certified MUJI factory in 2016, the team has committed to improving its skills and to reaching the next level of production quality. OVOP+1 is a registered public union based in Karakol, Kyrgyz Republic that acts as the intermediary between small-scale artisans and the global marketplace. OVOP+1 is in charge of technical assistance, distribution of products, and business coordination and support for the artisans and Community Based Organizations (CBOs). OVOP+1 deals directly with MUJI.

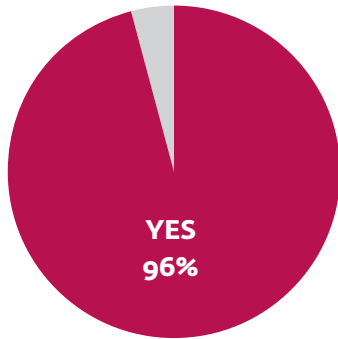
Impact on Development of Capabilities

DEVELOPMENT OF TRAINING AND TECHNICAL GUIDANCE FOR MUJI’S SMALL-SCALE PRODUCERS

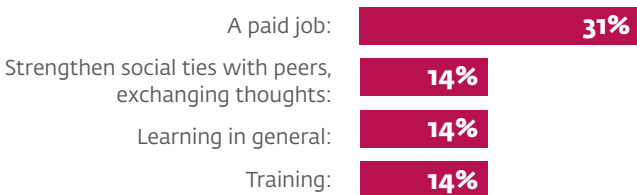
Based on the design specifications provided by MUJI and taking into account the Ryohin Standards,²⁷ JICA and OVOP+1 prepared a manual for their production process. OVOP+1 assigns every Community Based Organization (CBO)—a local organization consisting of around 5 to 20 producers that is owned and associated within the community—a technical supervisor who conducts technical training in felt products for the artisans in the group. The training is conducted regularly to help the artisans develop and improve their skills²⁸ and to ensure that products meet MUJI’s quality requirements. MUJI inspects the products for quality, provides advice on achieving higher quality, visits production sites, and gives regular guidance for improvement to OVOP+1. MUJI’s contributions directly enhance the competitiveness of the artisan group and, indirectly, that of artisans.

Over 90 percent of the respondents attended training sessions held by OVOP+1 trainers, and on average they attended 3.5 sessions. Seventy-five percent of the respondents received direct guidance on felt techniques from the leaders of the CBOs. About half of the respondents experienced productivity gains between 2016 and 2017 and a reduction in the overall hours they spent making products. Artisans that attended the training sessions told researchers

FIGURE 6. Did MUJI give you the opportunity to progress?



IN WHAT WAYS?



that the training was useful. The skills needed for felt production had been passed down to half of the respondents as a traditional technique or as a part of family tradition. The skills they had gained through tradition were not sufficient to produce products that satisfied consumers in developed countries, but through continued efforts in improving their skills in design, production, monitoring, and product and quality control, they reached the level required by MUJI.

OPPORTUNITIES FOR PERSONAL DEVELOPMENT OF SMALL-SCALE PRODUCERS

Ninety-six percent of respondents said that they regarded the collaboration with OVOP+1 and MUJI as opportunities to improve their skills and/or livelihoods. Below are specific examples of the improvements observed.

Quotes from Producers

- *I believe that collaboration with MUJI offers more learning than through higher education institutions.*
- *I am learning why we need a work plan, time management, and business skills.*
- *The training and opportunities to be a part of the production team mean a lot to me. Without these, I would be unproductive, wasting my time at home like I used to.*
- *I now not only have an income source but also have learned the importance of teamwork by working with my colleagues as a team. This helps me a lot in building good relationships with others and raises my social status. And continued learning has made me a better person.*



Social Skills

OVOP+1 artisans felt that their economic advancement led to social benefits such as independence and greater respect from their families and communities. Working with OVOP+1 enabled artisans to meet new people and socialize more often.

MUJI'S IMPACT IN THE COMMUNITY

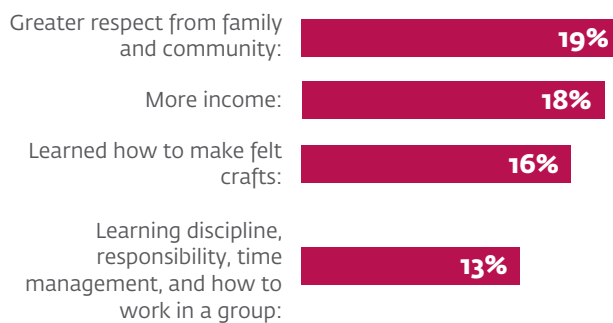
The job helped producers to connect to people outside their families. Joining the felt production team inspired 80 percent of the respondents to participate in other community activities. The project not only raised their status in the family but also helped them establish themselves as important members of the community. Because of their employment, those who participated in the project were respected by the community. The impact was especially strong among the poor. Eighty percent of

respondents attributed the positive changes in their lives to the MUJI/OVOP+1 project. More than 70 percent said that the project helped them to develop more self-confidence and self-esteem, and 80 percent said that this bolstered their bonds to society or community. In response to questions about specific changes in their lives, about 20 percent chose “getting respect from my family and the community,” followed by “earning more money” (18 percent), “learning new skills and how to make felt handicrafts” (16 percent), “learning to comply with the contract or to meet a delivery deadline, and developed time management skills” (13 percent), and “getting to meet more people” (11 percent).

Quotes from Producers

- *More and more people listen to me now that I have a job and earn money.*
- *Handicraft work helped me develop my self-confidence, which keeps me motivated to continue.*
- *I would like to build on this experience and try other jobs.*

FIGURE 7. The producers gained more respect and self-confidence



WOMEN PRODUCERS IN MUJI'S SUPPLY CHAIN

The producers gained self-confidence from working as professionals and selling their products globally, empowering the women. In the Kyrgyz Republic, employment opportunities for women in the formal sector are limited. Women earn less than men for the same work; making only 63 percent of a man's salary in the formal sector.*

Income and Assets. The women that participated in the project have gained greater access to resources and greater control of their earned assets. Over two-thirds of the artisans surveyed agreed that working with MUJI led to an increase in their income, helping them achieve higher levels independence and empowerment. Artisans also have more say within their families because they earn an explicit, tangible, cash income and usually control the use of that income. Over 70 percent of respondents decide for themselves how to use their craft income, and another 20 percent decide with their spouses how to use their earnings.

Education and Knowledge. The producers now have increased knowledge and skills, and they have transmitted their knowledge and skills to others in the community. A small but sizeable number of producers agreed that working with MUJI allowed them to gain new skills, including not only craft-specific skills but also more general skills such as leadership, time management, and responsibility. The differences

between the formal job setting and the family setting led to the development of personal qualities like self-discipline and time management, and working in groups also helped the artisans develop social skills. Craft work also provides some artisans with the skills—and the desire—to earn income from their own business, often in craft work but in other areas as well.

Leadership. Women have taken decision-making roles, both within the context of the project as well as within their households and communities. Sixty-five percent of respondents agreed with the statement, “The importance of my role in the family has increased since I joined the project.” Eleven percent of surveyed artisans explicitly mentioned that they have gained experience taking on a leadership role, either by helping to train fellow artisans or in some other form.

FIGURE 8. The producers' work had a positive impact on the homes/families

My family helped me make felt products:

61%

My family reacted positively to me earning an income from felt handicraft making:

92%

The importance of my role in the family has increased since I joined the project:

65%

* USAID 2018, World Bank, UNDP Human Development Indicators, International Labour Organization, ILOSTAT database. Data retrieved in September 2018. “Women, Business, Law” by the World Bank Group.

Other Social Benefits. Seventy-six percent of the artisans reported increased confidence, which is an important endowment factor for women entrepreneurs.* Ninety percent reported increased appreciation and encouragement from family members. This may lead to a broadening of the community's social norms that could increase women's opportunities for economic participation.** Sixty-five percent reported improvements in their household roles; work with OVOP+1, which was mostly home-based or done in small workshops, enabled women to maintain a balance of care and work, consistent with traditional Kyrgyz culture and identities.

* World Bank Group. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa.*

** World Bank Group. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa and World Bank: Voices of Europe and Central Asia: New Insights on Shared Prosperity and Jobs.*

Quotes from Producers

- *My mother-in-law, who is in poor health, was not sure about my side job. But since I now make some money from this project, she is supportive.*
- *My husband not only helps me make the felt products but also reviews and streamlines the work process or proactively makes the templates for the products.*
- *My family members appreciate my work. Since getting this job, my husband has stopped trying to control me.*
- *This job has broadened my horizons. Women also can earn some money and take care of domestic work.*
- *Before, I was a typical daughter-in-law who was just doing housework and caring for children. But now my status is changed. I am earning money and I am respected by members of my family and the community."*



MUJI Employees in Japan and Taiwan, China

MUJI and IFC conducted online employee awareness surveys in Japan and Taiwan, China, about MUJI's promotion of inclusive business.²⁹

SUMMARY

The employee survey in Japan was conducted from December 2–27, 2017. A total of 349 people responded to the survey, with 11 percent of those respondents employed at headquarters and 89 percent at retail stores. The average age of the respondents was 31.5 years, and 76.5 percent were female. The employee survey in Taiwan, China, was conducted from March 1–31, 2018. In total, 1,308 people responded to the survey, with 94.5 percent of those respondents employed at headquarters and 5.5 percent at the retail stores. The average age of the respondents was 26.1 years, and 70.8 percent were female. The survey in Taiwan, China, was conducted through MUJI's internal system.

EMPLOYEE AWARENESS OF INCLUSIVE BUSINESS AT MUJI

Over 70 percent of the employees in both Japan and Taiwan, China, agree that “MUJI makes every effort to promote inclusive business.” More than 80 percent think that “they are making every effort to support sustainable business.” These results show that employees understand the social aspects of the overall business.

Employees also answered questions about what they perceive as the impacts of inclusive business. About 80 percent agreed that “it contributes to enhanced brand value.” More than half of the respondents in both countries thought that “it contributes to increased sales.” Somewhat more people recognized the impact on brand value than on sales, agreeing that support for developing countries through inclusive business enhances MUJI's brand value.

FIGURE 9. Background of employee survey participants

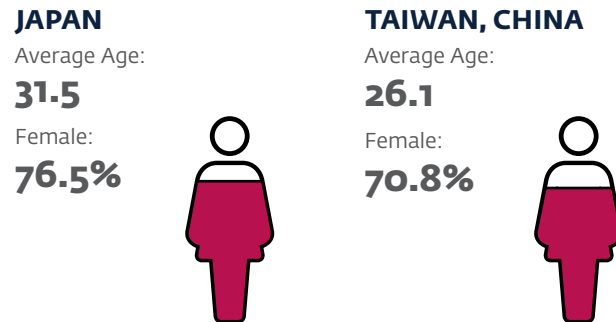


FIGURE 10. What impacts do you think inclusive business has on MUJI?

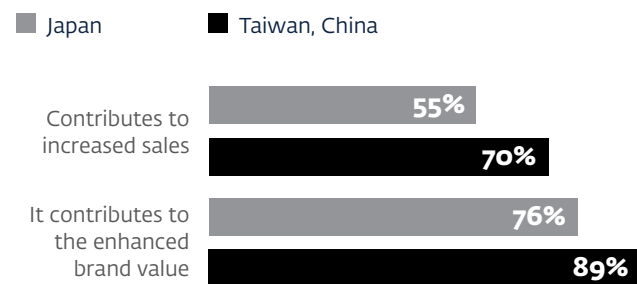
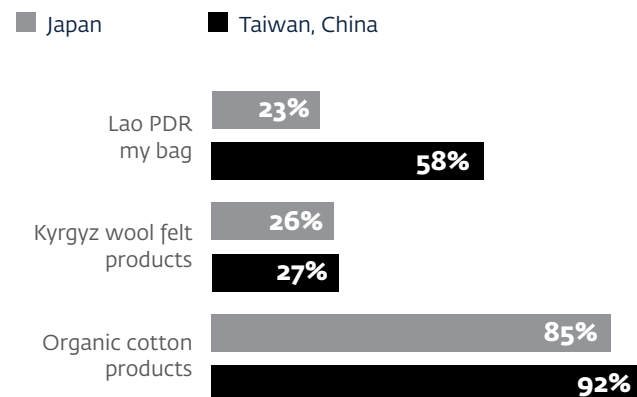


FIGURE 11. Employee awareness of inclusive business or ethical products varied



Awareness of which MUJI products were created and delivered under the inclusive business projects was uneven. The employees showed a high level of awareness of organic cotton, as MUJI uses it for all its textile products. On the other hand, the level of awareness of individual products was limited, probably reflecting the fact that as of 2018, MUJI handled 7,600 items in the categories of fashion goods, household goods, and food items.³⁰ Unless employees are personally involved with particular products, they tend to know little about products' origins.

PROVIDING INFORMATION ON INCLUSIVE BUSINESS TO MUJI'S EMPLOYEES

Employees were asked the question, "Do you think your consumers are aware of the fact that MUJI's initiative for inclusive business has contributed to society and developing countries?" 20 percent of the employees in Japan and 59 percent of those in Taiwan, China, chose "yes" (Figure 12).

To understand the kinds of product information MUJI employees thought most important to share with customers, the surveyors asked how much time they believed they should spend explaining product features, materials, and functions relative to explaining how the products helped MUJI contribute to developing countries. In Japan, a quarter of all employees said they should spend 70 percent of their time explaining product features, and 30 percent discussing the impacts of inclusive business. In Taiwan, China 28 percent of the employees said the time allocated was 50:50. The result suggests that Japanese employees, when communicating with consumers, tend to emphasize information about the products themselves while employees in Taiwan, China, think that the product information and MUJI's contributions to developing countries are equally important.

FIGURE 12. Do you think your consumers are aware that MUJI's initiative for inclusive business has contributed to society and developing countries?

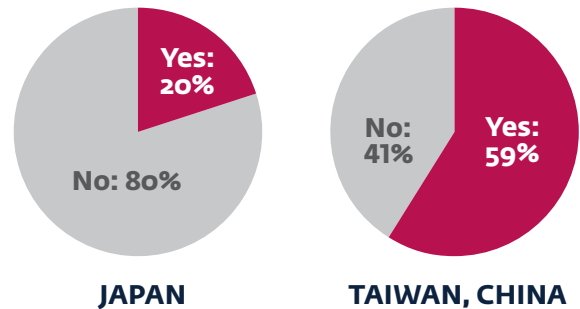
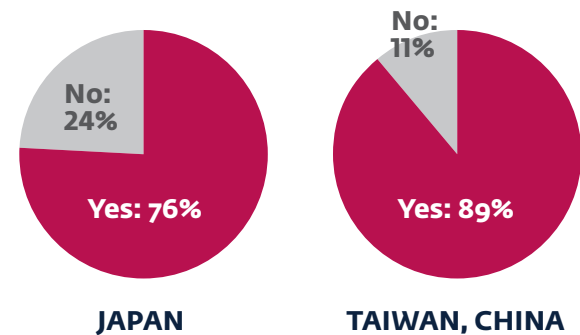


FIGURE 13. Should MUJI move ahead with efforts to promote inclusive business?



There seem to be different views among employees and store managers in different countries about the value of sharing information about MUJI's inclusive business practices with consumers. The consumer survey (discussed in the next chapter) shows a similar result. Consumers in Taiwan, China, are more interested in knowing that their products are ethically produced than are consumers in Japan (with 92 percent of customers in Taiwan, China, but only 73 percent of customers in Japan expressing interest). The results above likely reflect the consumer environments in the two countries.

THE FUTURE OF MUJI'S INCLUSIVE BUSINESS FROM THE EMPLOYEE PERSPECTIVE

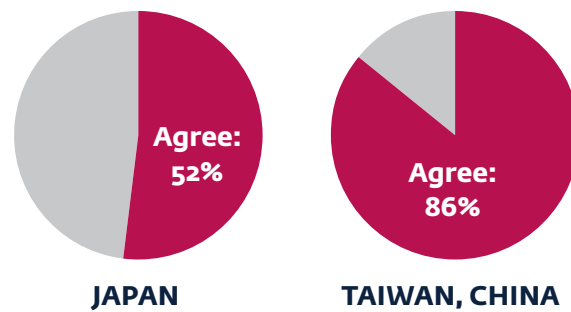
Employees in both countries are supportive of MUJI's inclusive business initiative, with 80 percent stating that MUJI should move ahead with the effort. Some employees called for "more effort on this initiative" but also pointed out that "MUJI has implemented good ideas, but many of them are unnoticed." Such responses suggest that the store should review the ways it communicates information with its employees to improve their awareness. Some employees had negative opinions about the initiative, including "neutral," or "should stop this." They stated that "the challenge is that there are too many things that staff and consumers are not aware of" and that they "would like to get a deeper understating about this initiative." Such responses similarly suggest a lack of information and employee knowledge.

EMPLOYEE LOYALTY TO MUJI

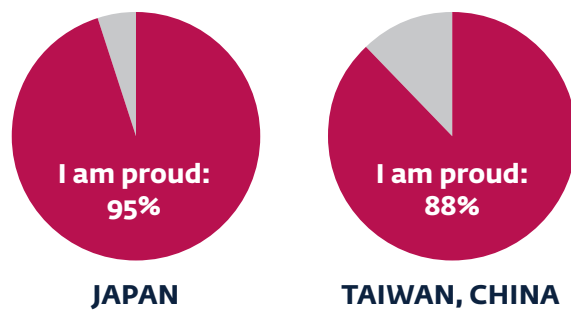
Approximately 90 percent of employees in both countries are "proud" that MUJI is fulfilling social responsibilities while pursuing its business. When asked if MUJI's inclusive business initiative made them "feel prouder and more bonded to my company because it does good deeds," 52 percent of employees in Japan and 86 percent in Taiwan, China, said it did. Thus, MUJI's efforts to make its business

FIGURE 14. MUJI's efforts to make its business more inclusive nurture a positive attitude in employees toward the company

MUJI's inclusive business initiative made employees "feel prouder and more bonded to my company because it does good deeds.



Over 90% of employees in both countries "are proud" that MUJI is fulfilling social responsibilities while pursuing its business.



more inclusive and to fulfill its social responsibilities seem to nurture a positive attitude in employees toward the company.

In short, the survey shows that a positive attitude toward these efforts can only be developed with knowledge and information about inclusive business. Employees who knew enough about inclusive business and had favorable opinions about it provided positive answers to the questions about their pride in their company. At a national level, the survey suggests that employees in Taiwan, China, are more positive about inclusive business than those in Japan. Additional study will help to identify specific factors beyond national traits and culture that influence attitudes.

MUJI Consumers in Japan and Taiwan, China

MUJI and IFC also conducted consumer surveys in Japan and Taiwan, China.³¹ In Japan, the survey was conducted online using a survey application. In Taiwan, China, it was conducted through social media. Two different surveys were conducted. Survey 1, conducted only in Japan, analyzed differences related to differing levels of loyalty. Survey 2, conducted in both Japan and Taiwan, China, analyzed consumers' level of awareness.

SUMMARY

In Japan, the survey was conducted from January 12 to January 18, 2018, using a smartphone application called "MUJI Passport." A total of 30,532 people answered the questionnaires. Their average age was 40.5 years, and 84.4 percent were female. The average purchase value of the lifetime value of purchases made at MUJI was 3,812 yen (\$36 equivalent).

Customers earn "miles" on their MUJI Passport when they buy products, visit stores, or answer questionnaires. The survey used this "mileage" data to divide the respondents into two groups highly loyal and less loyal customers.

In Taiwan, China, the survey was conducted through social media from July 10 to August 30, 2018. In total, 629 customers responded. The average age of respondents was 34.4 years, and 85.1 percent were female. The average purchase value of the lifetime value of purchases made at MUJI was 3,700 yen (\$35 equivalent).

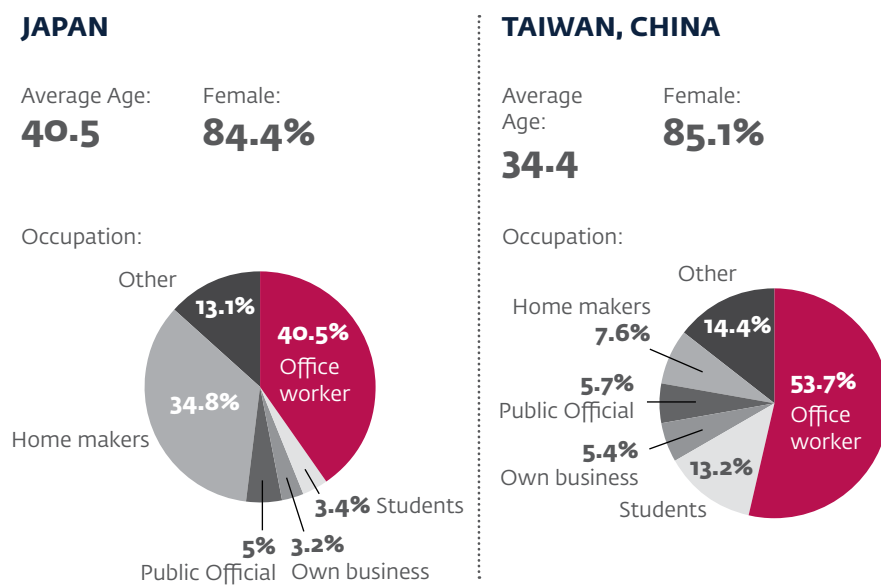
SURVEY 1: ANALYSIS BASED ON THE LEVEL OF LOYALTY IN JAPAN

The survey results show that highly loyal customers tend to have a deeper understanding of MUJI's efforts and its ethical products. Customers spending more on each purchase were more willing to recommend MUJI to others. Highly loyal customers tend to look for the essential value of the ethical products, whereas less loyal customers tend to focus

more on price, variety, and availability. The survey showed that highly loyal customers with more miles tend to be more positive about ethical products, reflecting their deeper understanding of the MUJI concept of "contributing to society through the very businesses in which we engage."

However, qualitative research shows that many consumers, regardless of their levels of loyalty, did not know which products were ethical. That lack of knowledge suggests a need for more informative in-store displays. Some

FIGURE 15. Background of consumer survey participants



customers stated that MUJI, as a brand, needed to promote and explain their efforts more to the customer. Additionally, one respondent said, “I go to MUJI stores every week, but I was not aware they have some ethical products.” Another wrote, “I would like to see more ethical products in terms of variety and amount.” Some responses showed an understanding of the ethical products, such as a comment that “I hope to see MUJI maintain its policy and production based on that” and the requests “I would like to know the process and results of their support” and “I would like to know the stories about the support.” We also received negative responses about prices, including, “I want lower prices.”

The survey also showed that the level of awareness of products from India and the Kyrgyz Republic was higher among highly loyal customers than among less loyal customers. Additionally, highly loyal customers tended to want to know the stories behind their ethical products.

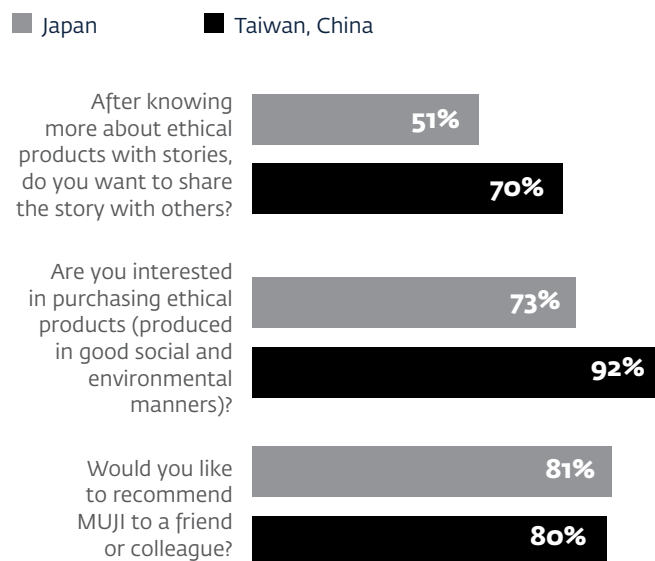
SURVEY 2: CONSUMER SURVEYS IN JAPAN AND TAIWAN, CHINA

Over 90 percent of customers in Taiwan, China, showed great interest in ethical products, though customers in both Japan and Taiwan, China, had high levels of overall interest (73 percent in Japan and 92 percent in Taiwan, China). In both countries, customers with higher levels of interest in ethical products were more likely to recommend MUJI to others (81 percent in Japan and 80 percent in Taiwan, China), reflecting strong recognition of the connection between the MUJI brand and ethical values. More than 70 percent of customers in Taiwan, China and over 50 percent in Japan said they were “willing to” recommend MUJI’s ethical products. The factors considered by customers when buying ethical products were quality, the credibility of the product information, price, usage, ethical reasons, materials, availability, matching with customer’s ethics, and the

ethical image of a sales company. The responses indicated that brand name and whether the goods were handmade were not important factors.

The survey also sought to find the level of awareness of MUJI’s use of wool felt from the Kyrgyz Republic and organic cotton from India. Over 80 percent of the customers in both countries were aware of MUJI’s use of organic cotton in all of its cotton products, and half of the respondents had purchased cotton products. Over 90 percent of those customers were satisfied with the products. The survey results show that MUJI’s organic cotton products have become its leading products. On the other hand, the level of awareness in both Japan and Taiwan, China of wool felt products from the Kyrgyz Republic was low. Fewer people had purchased the products. The results of the survey are likely explained by the fact that wool felt products are available only at a limited number of stores and only at limited times. Over 60 percent of survey respondents showed a willingness to buy wool felt products, which means these items could still offer good market opportunities.

FIGURE 16. For those interested in ethical products, they tend to want to recommend MUJI to a friend or colleague



Lessons Learned from Building Inclusive Supply Chains

Contributing to society (“to serve a purpose”) is part of the company’s overall corporate strategy.³² MUJI sells products that it develops with small-scale producers in developing countries, allowing those producers to earn cash income, gain access to the global market, and obtain opportunities to enhance their skills and their competitiveness. Third-party groups representing producers and artisan aggregator firms play pivotal roles in connecting MUJI with these producers. These organizations work directly with groups on the production side, such as small-scale producers, entrepreneurs, and micro-enterprises. To address challenges faced by small-scale artisans, these aggregator organizations mobilize human resources and materials and help develop necessary skills. In this chapter, we draw lessons from efforts by MUJI and its partners to find solutions that address the challenges companies face when building inclusive supply chains. We examine these lessons from the perspective of different

stakeholders involved in the supply chain and discuss how they can be applied to the ongoing activities of each actor. Lastly, we review how each actor built its partnerships.

CHALLENGES IN ENGAGING WITH SMALL-SCALE SUPPLIERS AND SOLUTIONS

MUJI develops business around its stated policy of “contributing to society through the very businesses in which we engage.” The policy drives MUJI to implement inclusive business as a part of its core business, rather than simply as part of its Corporate Social Responsibility (CSR).³³ The company has decided that it will not merely offer temporary support but will continue its commitment to inclusive business. It plans to sell products coming from its commitment in the same way that it sells other items.

Challenges in Engaging with Small-Scale Suppliers



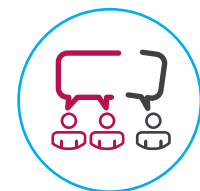
Challenge 1:

Inconsistent quality and unstable production make it difficult for retail companies to consistently procure definite numbers of products.



Challenge 2:

Procurement and logistics costs can be prohibitive.



Challenge 3:

It is difficult to build and maintain relationships between private companies and producers.

MUJI's general strategy and efforts on outreach and communication

When MUJI introduced felt products from the Kyrgyz Republic to the market for the first time, the company regularly posted stories about the lives and efforts of local producers in its Japanese and English blogs and on its homepage. It shared information about the support model behind the products in brochures as well as in their internet store. In the second year of the initiative, MUJI shifted its public relations strategy to focus more on the products themselves rather than on its support for producers, applying the same strategy that it applies to other items. MUJI found that attractiveness is the key factor for consumers not the company's intention to support artisans in the Kyrgyz Republic.

On its homepage, MUJI promotes organic cotton and naturally dyed products as producer-friendly materials. MUJI focuses on communication with its consumers about the materials and production process that go into its products. The company believes such communication helps its customers achieve “a simple, pleasant life.”

One manager said: “It is important to share information about our activities and our efforts to improve society, instead of “pushing” it on consumers. We were not supposed to advertise the information because it was nothing special; it was simply the embodiment of our concepts. Instead, we chose the way to introduce our products and stories behind them. Consequently, MUJI did not intentionally advertise this as a part of its CSR efforts.”³⁴

Working with small-scale producers in emerging markets can present businesses with unique challenges that do not arise when working with sourcing companies. The following discussion of lessons learned from MUJI's experiences focus on three of these challenges.

Challenges Companies Face when Engaging with Small-Scale Producers in Developing Countries

CHALLENGE 1: Inconsistent quality and unstable production make it difficult for retail companies to consistently procure definite numbers of products.

Small-scale producers and artisans in developing countries often lack the skills and know-how necessary to produce items and agricultural products that meet international standards. Limited access to training, information, and resources such as acceptable inputs, materials, and equipment makes it difficult to provide products of the desired quality. Many producers and artisans have limited access to the materials and resources required for production. Lack of access to finance often prevent them from purchasing materials and resources upfront, before production begins. Consequently, artists can struggle to meet the quality and/or quantity requirements set out for them. Delays in product delivery only add to these challenges.

SOLUTIONS

Provide opportunities for capacity development

Private companies and producer groups provide opportunities for producers to develop capacity and to improve productivity and quality. Producers take advantage of these opportunities, enabling them to make and sell high-quality products and thereby increase their income, which in turn strengthens their loyalty to the companies and producer groups. The adoption of international standards also paves the way for producers to participate in new markets.

In its once-a-year site visit to the Kyrgyz Republic, MUJI brought a production manager, designers, and merchandisers so that they could share their ideas about quality and offer guidance to their local counterparts. The production manager prepared and shared guidance reports with the local producers to improve their management capacity.

MGS provides continuous guidance to local producers in emerging markets about how best to support the producers' efforts to make quality products that meet MUJI's Ryohin Standards. MGS does not directly offer guidance on the cultivation of specific commodities, such as cotton. Still, it does provide instructions about processing, including sewing and dyeing, to production sites in India and Lao PDR. For instance, MGS shares its knowledge about how to improve colorfastness and increase safety at production sites.

Tailor product design to meet international standards

Since the very beginning of the felt project in the Kyrgyz Republic, MUJI has used designs by local artisans as the foundation for the final products. After close communication with the artisans, MUJI

“Continuity and sustainability are key when we start something. Our activities in the Kyrgyz Republic are the embodiment of our concept and our broad strategy, but their significance and the reasons to continue them are that they are necessary for our business. Even though we get broad support for this project from our customers, at the end of the day, to continue this effort, it is essential that we get an actual vote from customers—that they purchase and become fans of our products.”³⁵

—MUJI Managing Director

created practical designs that were easy to replicate. After gaining experience, MUJI was gradually able to offer ideas for improved designs and for new products, which eventually helped the producers streamline their work process. The artisans came to realize that product designs acceptable to the global market would also sell well in the domestic market. OVOP+1 made samples, and JICA as an intermediary supported the artisans by preparing and distributing manuals that explained the process of moving from sample making to mass production.

Meet international standards for product development

As stated above, local producers and artisans need to improve their production skills, and they need to

build their knowledge daily to make products that meet international standards.

For MUJI to sell products in the market, it needs to be sure the products meet certain criteria for quality. MUJI will not carry products that do not meet its Ryohin Standards, which lay out quality requirements in 20 broad categories.

When working on product development with local artisans in the Kyrgyz Republic or other developing countries, MUJI regularly inspects products for quality and visits production sites to provide instructions to artisans. The inspections and the visits help artisans to develop skills that are essential for safe production.

CHALLENGE 2: Procurement and logistics costs can be prohibitive.

Procurement and logistics costs can be extremely high. Retail companies have to collect products and materials from numerous producers scattered throughout broad areas in markets where transportation infrastructure is generally fragile.

SOLUTION

Lower cost

MUJI offers a price for its products that will appeal to many customers. To lower its prices, MUJI worked with producers and artisans to modify production methods and improve productivity. MUJI reviewed the manufacturing process, the sourcing of raw and subsidiary materials, and logistic routes.

The establishment in 2006 of MGS, MUJI's subsidiary responsible for sourcing, helped lower costs. Procurement cost is now lower than it would have been if MUJI had continued working with traditional trading companies.

In 2011, the first year of the project in the Kyrgyz Republic, MUJI conducted product inspections and all packaging in Japan. At the beginning of the project's second year, these tasks were carried out in the Kyrgyz Republic, which lowered costs for MUJI. A reduction in the frequency of shipping contributed to lower costs. The 2016 registration of a production plant in the Kyrgyz Republic as an official MUJI certified plant has also helped. Before the registration, all products produced in the Kyrgyz Republic had to be shipped to Japan before they could be exported to overseas stores. After registration, the plant can export products directly to overseas stores in Europe, reducing costs substantially and, in turn, lowering sales prices.

CHALLENGE 3: It is difficult to build and maintain relationships between private companies and producers needed to address the challenges described above.

Generally, business relationships between retail companies and small-scale producers in developing countries are only temporary, making it difficult to consistently procure specific numbers of products or materials. Communication challenges can make it difficult for one group to see the needs of the other, and the producers and artisans feel little or no loyalty to the retail company. Consequently, producers and artisans generally choose to sell their products to any company or broker that is willing to pay more, presenting an obstacle to building a long-term or a permanent relationship.

SOLUTIONS

Promote effective communication

To achieve mutual understanding, companies need to maintain close communication with local producers and artisans. Tips for companies that source from developing countries include the following:

Order quantity must be strictly controlled because of the risk of instability when doing business in developing countries. Companies should consider the level of skill that will be required to meet and replicate a product's specifications. A sample should be used as a guide. Close communication between the parties is necessary when determining a producer's or artisan's actual level of ability, as producers and artisans tend to say that they "can" make something regardless of the difference between the ability they have and the ability they need to fulfill an order.

The earlier an order is placed, the easier it is for producers and artisans to fulfill it on time by mobilizing resources and adjusting their schedule against other jobs. When deciding the appropriate time for ordering, companies need to consider the producers' capacity and level of preparedness.

Prices must be set to a level at which the products can be purchased or sold in the market. When placing an order, the retail company should adjust both the price and the quantity to meet its own desired delivery date and the capacity of the producer.

The management teams of retail companies need to proactively communicate with their counterparts at the same level. Mutual understanding of each party's

background is essential and can only be reached with close and continuous communication. While conducting business, both sides need to understand culturally-based differences in communication style.

It is important to become trusted partners. MGS successfully conveyed to its business partners (spinning plants, ginneries, and sewing plant) that its customers found significance in MUJI's use of organic cotton, which helped them act as real partners in the enterprise. MGS first shared its ideas and the concept behind the project so that its partners could procure the quantity needed by MUJI.

Expand business activities for stable procurement

Expansion of the business enables stable and consistent procurement from producers and artisans in developing countries.

Once MUJI was approved to join BCtA, MUJI decided to expand its business with local artisans in the Kyrgyz Republic, aiming to increase turnover by five percent a year, a modest amount for MUJI. To do so, MUJI placed orders regularly and sometimes ordered slightly more than needed. It also branched out into new product categories and designs.

All of MGS's efforts to connect with local producers around the world require commitments from inside and outside the company. MGS has promoted joint product development and identification for fabric products that use organic cotton and natural dyes.

“Both MUJI and the producers recognize the success of the project in the Kyrgyz Republic and wish it to continue. The project has enabled both to grow their businesses. Temporary or ad hoc engagement would be nothing but trouble for producers in the Kyrgyz Republic; a long-term relationship enables a culture to be shared by the management as well as the working-level staff of both groups.”³⁶

—MUJI Director

MUJI has set a target amount of organic cotton to be used for all of its cotton products, and it is gradually expanding its use of organic cotton. In southern India, MGS sources organic cotton from a key supplier, Company A, a spinning mill located in Pollachi. MGS deals only with Company A to acquire cotton yarn from the region, and MGS includes Company A in each stage of the process, beginning with choosing the cotton variety (as of 2019). The cotton MGS procures from Company A is used in towels, sheets, cushions, soft towels (Shinayaka Towels), handmade placemats, and other products, all available throughout the year.

Because MUJI's efforts to address challenges benefit producers and artisans in developing countries, long-term success can be expected.

Benefits for Producers Working with MUJI

Producers and artisans can expect stable benefits from their relationships with global retail companies. Those benefits come from having consistent and reliable access to the global market, a direct link to cash income, and opportunities to improve their lives. Below we discuss the results that producers and artisans may expect from their collaboration with private retail companies.

Opportunities to earn cash income

According to research conducted by IFC, more than 80 percent of local producers and artisans in the Kyrgyz Republic saw an increase in their household income due to their collaboration with MUJI. The poorer³⁷ a producer was, the more beneficial she found the collaboration. The producers and artisans saw a system directly linking the amount of work they did and the income they received because of the collaboration: their earnings were proportional to the amount of work actually performed (see “Producer Survey” section).

Impact in their daily lives

In addition to providing a source of cash income, these activities had many different impacts on the artisans in the Kyrgyz Republic. These include providing opportunities for skill development, raising their status in the family, linking them to society, and raising their status in the community. These benefits were sufficiently valuable that local producers chose to continue collaborating with MUJI (see Producer Survey section).

Access to international markets

Small-scale producers often do not have good access to global markets and are not able to target particular markets. MUJI's effort in the Kyrgyz Republic is focused on getting products into international markets. Thus, its support included assistance with quality and the development of new designs, and MUJI's sales network and public relations were fully leveraged to sell the products (as reported by JICA experts).

Opportunities to sell a certain amount of product to major clients

Large retail companies often purchase products in bulk from small-scale producers and artisans in developing countries, which is beneficial for producers and artisans who could otherwise sell their products only in local markets. The system now established in the Kyrgyz Republic ensures that those producers and artisans can count on a consistent business relationship with major companies, which buy an agreed-upon amount of specific products each year. The agreed-upon amount is growing gradually.

Enhanced credibility and brand building

The artisans in the Kyrgyz Republic, in partnership with MUJI, have successfully built their brand and enhanced their global credibility. Their strong reputation resulted not only from improved product quality but also from the artisans' increased business and production management skills, which were essential to making products that could be sold in global markets. The artisans consistently improved their production management by following the guidance provided by MUJI. They now can produce high-quality products in a wide range of product categories, which in turn helps them find new buyers and markets.

Growth of Producers' Intangible Assets

Companies' incorporation of small-scale producers into their supply chains has contributed to the growth of those producers' intangible assets.

INHERITANCE OF TRADITION AND CULTURE IN THE REGION

Felt products are a part of the culture of the Kyrgyz Republic, where felt yurts and carpets have long been made by hand. The MUJI project was built with local culture as its foundation, using local materials that are good for the environment. The people that inherited the traditions around felt-making found the project relevant to those traditions.

The eco-bag project in Lao PDR helped craftsmen in a rural village follow their own traditions of spinning cotton by hand, dying yarn with true indigo, and hand-weaving (Source: MGS).

A SYSTEM THAT ALLOWS PRODUCERS TO WORK IN REMOTE AREAS

The small-scale artisans in the Kyrgyz Republic established a mass-production system that incorporates clusters of small community groups. Although the producers are scattered across the region, the system allows them to work near their homes and allows products to be collected from remote areas. The system was established in cooperation with donors, including aid agencies like JICA, and producer groups experienced with mass production. The role of producer groups is discussed below.

CREATION OF ORGANIZATIONS AND SYSTEMS TO SUPPORT PRODUCERS/ ARTISANS THROUGH CAPACITY DEVELOPMENT IN THE REGION

MUJI's efforts in the Kyrgyz Republic helped establish a system that enables producer groups to organize local producers. The producer groups encourage local producers to form proactive and independent organizations with the capacity to develop their staff and their leaders, as well as identify talent and support capacity development.

Before the launch of the eco bag project in Lao PDR, job opportunities could only be found in the agriculture sector. To find work, local youth generally had to leave for neighboring Thailand. To improve the situation, local entrepreneurs built and opened a sewing factory that made eco-bags (Source: MGS).



ROLES OF THIRD-PARTY INTERMEDIARIES AND AGGREGATORS

Aggregators connect producers and retail companies. More and more, third-party organizations and aggregators that connect companies with small-scale producers play pivotal roles in building inclusive businesses. They provide producers with the materials that are needed for production. Some also offer financial services that enable producers to access materials. They can also spark dialogues and put in place processes that lead to group formation. They offer training opportunities for producers on a regular basis, contributing to capacity development and improving the quality of the products. They also have experience with some of the challenges faced by retail companies such as MUJI and can help companies address them. Below we review the roles of aggregators and offer possible ways forward for companies considering working with aggregators.

Organizing small-scale producers

Private sector companies conduct business with producer groups and aggregators such as OVOP+1 and BioRE Tanzania, a subsidiary company of a Swiss-based company Remei AG, rather than working directly with individual producers. Working with aggregators cuts transaction costs and streamlines the whole process, from export to payment settlement. They also mitigate problems that arise during negotiation or while procuring products.

Providing essential resources and materials

Producer groups establish systems that provide small-scale producers with the materials and resources that they need prior to reaching the production stage. The producer groups deduct the costs of the materials from the payment for the

products they ultimately collect, which helps producers lower their upfront costs. For instance, in the Kyrgyz Republic, it is the producer groups and donors that procure materials such as wool. They also inspect the natural plant dyes for wool and make any necessary changes. They provide these materials to small-scale producers on an as-needed basis and then deduct the costs of the raw materials from the payment for the final products.

Investing in capacity development

The producer groups and donors both provide periodic training in capacity development, which improves producer productivity and product quality. By adopting international standards, producers gain the opportunity to access new markets around the world. These opportunities for capacity development help the producers develop their skills and increase their income, which ultimately increases producer loyalty to the company and the producer groups.

In the case of the Kyrgyz Republic, OVOP+1 received advice from MUJI and conducted training seminars for producers a few dozen times a year in Karakol, the fourth largest city in the country and the administrative capital of Issyk-Kul Region. OVOP+1 assigned a technical supervisor for every CBO. The supervisors took intensive capacity development training and then taught skills to the rest of their CBOs. Such systematic capacity development training enabled OVOP+1 to provide opportunities for capacity development regularly.

BioRE Tanzania, launched in 1994, is another partner of MUJI for organic cotton. It provides guidance to local farmers on organic agriculture technology that can improve their living conditions. BioRE has implemented a production system that provides a purchase guarantee, under which it purchases products at a price above that of the

market. The purchase guarantee brings stability to the lives of farmers. BioRE also provides more general support for farmers' efforts to shift to organic farming.

Building relationships with producers

By collaborating with producer groups and donors that engage in dialogue with producers and by creating processes that help producers with group formation, retail companies can deepen their understanding of producers. They can thus streamline their business, reduce their exposure to risk, and better predict the needs of producers and the problems they face when dealing with issues around timing or methods of payments. They can also more easily combine different approaches to streamlining their supply chains. As discussed above, communication challenges between companies and producers can give rise to many problems. It is therefore essential to include producer groups in the process of building relationships between retailers and producers.

Securing a certain procurement volume from producers and improving quality

From the onset of the project in the Kyrgyz Republic, OVOP+1 made efforts to produce high-quality products that would be acceptable to international markets. The effort was built on OVOP+1's partnership with MUJI. OVOP+1 was able to improve the quality of products and the producers' business skills by following MUJI's guidance on production management. The producers in the Kyrgyz Republic can now make high-quality products in a wide range of product categories.

Company A in India, which has partnered with MGS, is learning how to ensure that its products are of high quality. MGS's efforts start at the earliest stage of the production process. MGS begins with an understanding of how to deal with raw materials. With organic cotton products, MGS first looks into the growing process, including details of cotton seeds, growing conditions, and cultivation methods. MGS draws on its own experiences and the expertise of producers around the world to develop better production methods.³⁸

BUILDING PARTNERSHIPS TO ENCOURAGE A THRIVING INCLUSIVE BUSINESS MODEL

We review the ways each actor built partnerships for inclusive business, highlighting success factors for building an effective inclusive business.

Choosing reliable partners and settling on an appropriate division of labor

To determine whether a particular collaboration will be effective, it is important to examine the pros and cons from the perspective of companies, donors, and producer groups, so that each of them will aim for the same goals and agree on a division of labor.

As we saw in the partnership between MUJI and JICA, the different missions and policies, as well as the unique skills and experiences of each actor, are essential for the development of the partnership.

“Nowadays, we see too many products with no character. But we would like to offer our customers products with character—products that reveal the stories behind them—by leveraging local traditions and expertise passed down from generation to generation. MUJI uses carefully selected materials and builds close relationships with its counterparts among local producers.”⁴⁰

—MGS Manager

It is essential that all actors are able to identify and understand the product concept that is called for by the sales company. Clarifying the materials and concepts for products will enhance collaboration.

For its project in the Kyrgyz Republic, MUJI needed to select materials, simplify the production process, and design products³⁹ that helped customers relate to the lives of local producers. Based on the rules MUJI established for product development, MUJI chose high-quality materials, checked the production process, and decided that the products should be packaged in the same way as its other products. Products that use simple, local materials matched the overarching concepts behind the MUJI brand. Clarification at an early stage of the concepts behind the products made it possible to coordinate the efforts of the producer groups, producers, and partners, including donors. The concepts related to

material selection, approaches to product development, and product specification.

Information about the company’s vision for the final product is shared with sourcing partners in as much detail as possible. For instance, the organic cotton products must be made with materials that meet the quality requirements set by MUJI, and thus the materials must follow the agreed-upon product specifications. MGS shares with its partners all the information it has about how the final products should look (towels, for instance), how the cotton seeds should be selected, how the production process works, and how final products like towels should be woven. Open communication helps the producers and artisans understand the specifications of final products so that they can adjust their production methods accordingly. Clarification of the company’s needs and constant coordination are vital to maintaining MUJI’s system for ensuring a stable and consistent supply of high-quality organic cotton.

Strengthening partnerships

At some point in the partnership, the company must begin to think about how to facilitate the independence of the producers. One effective way to facilitate producer independence is to help the producers find new business partners.

MGS strengthens its bonds with producers in Tanzania, India, and Lao PDR by visiting them a couple of times a year to discuss product development, which helps the partnership continue by keeping it forward-looking.

Keeping the partnership and business alive

All the people involved in the project want to see continued business. For producers, it is important to know that the project is not temporary. They must know that it is ongoing and that they will have this job next year as well. That knowledge should be shared with all the people involved in the project.

Coordination at a practical level is key. The people who care deeply about the success of the business are the ones who can best coordinate the team and lead it to success. Activities that are self-motivated seem to lead to longer-lasting results than those that come out of a top-down model of leadership.

It is also important to gain support from management. Understanding from the management and the leader of the company is essential for the continuation of these business activities. Support from management will come not only because the project serves a good cause, but also because it leads to tangible achievements, such as a continued contribution to sales recognized by a majority of the management, or an operational system that supports continued activities.

Recognition by external bodies, such as receiving the IFC Inclusive Business Leader Award or approval for membership in BCtA by UNDP, will enable longevity of a project and help companies achieve the continuity that is necessary to generate sustained impact.



Conclusion

Over the past 15 years, IFC has invested more than \$22 billion and provided a range of advisory services for inclusive businesses in emerging markets. IFC's experience in working with inclusive business clients has provided valuable lessons that can be shared with private sector companies who aim to have a positive impact on people living at the base of the economic pyramid. IFC is committed to helping these companies succeed and expand their impact.

IFC's collaboration with MUJI generated important lessons learned for companies operating global supply chains, and for development finance institutions partnering with those companies. The goal of this report is to share these lessons and to inform company strategies and operations for those who are interested in building inclusive supply chains.

The key lessons are as follows:

Special attention should be paid to the challenges of, and solutions for, integrating small-scale producers into a company's supply chain. Small-scale producers face many challenges. To address the problems of inconsistent quality and unstable production, it is necessary to regularly offer capacity building opportunities to producers such as training, peer learning, access to inputs, information, and networks. To reduce increased costs of procurement with small-scale producers, it is necessary for companies to conduct a review of manufacturing processes, procurement of raw materials, and logistics. To build long-lasting relationships with producers who come from different backgrounds

and cultures, close and constant communication is beneficial.

Long term success requires working with partners who understand producer needs and whose interests are aligned with the anchor company. Engaging with small-scale producers required MUJI to carefully select partners who could provide on-the-ground technical assistance with producers. Partners often play essential roles in capacity development, organizing local producers in remote areas, providing essential materials and resources to producers, and enhancing the relationship between the company and producers. It is also important that companies wishing to work with small-scale producers be open to new and different methods and select partners that have ongoing communication with producers.

Senior management support is critical for sustainable impact. Securing company management buy-in for inclusive business operations was key to the success of this project with MUJI. Commitment at the management level can help mobilize human resources, skills, materials, and information internally and externally. A global company as large as MUJI often sees changes in leadership which can shift a company's priorities and the direction of inclusive business activities. Thus, it is key for a company to have a system in place that ensures the continuity and sustainability of inclusive supply chain activities. Examples include leadership making a public commitment such that MUJI has done with the Business Call to Action program of the United Nations Development Programme.

Internal champions play an important role in raising awareness and facilitating internal buy-in. Internal champions across the organization can help colleagues gain an understanding of inclusive supply chain initiatives and create a supportive culture. IFC's research found that employees and consumers have varying levels of awareness of the ways that MUJI products support small-scale producers in emerging markets. Active measures aimed at sharing information about artisan products, such as the stories behind them, and the business case for inclusive business are important for raising awareness and strengthening employee motivation and pride in working for a company committed to building inclusive supply chains.



Measure progress and put in place feedback loops with direct stakeholders. As a company's inclusive business model evolves, it is critical to allocate time and resources to regularly monitor performance. One can establish a system for receiving feedback from a wider range of stakeholders such as suppliers, consumers, and employees. If a company does not have the in-house capability to obtain the necessary information and measure progress, it can approach independent evaluation agencies. IFC's research gained key insights from people directly engaged in MUJI's inclusive business, such as management, project staff, producers, local partners, employees and consumers. Having a continuous feedback loop can help the company review its progress and policies and identify actions to improve and sustain collaboration with small-scale producers in ways that contribute to both business growth and developmental impact.

This case study on MUJI's and IFC's collaboration demonstrates that making global supply chains more inclusive can be done by integrating small-scale producers into core business operations. This requires action at all levels of a company and innovative partnerships. Adapting and creating new and inclusive supply chains that support people at the base of the economic pyramid will not happen overnight, but if efforts are effectively put in place now, as demonstrated by MUJI, IFC and other partners, companies can reap the business benefits of inclusion and contribute to building livelihood opportunities for the poor.

Annexes

ANNEX 1. MUJI SMALL-SCALE PRODUCER SURVEY IN THE KYRGYZ REPUBLIC

Participants—Background of the Producer Survey Participants

The producers were all women who lived in five districts/rayons (Tong, Issyk-kul, Ak-Suu, Jeti-Oguzm, Tup) in the Issyk-kul region of the Kyrgyz Republic. Eighty-six percent of them were married, while the rest were widowed or divorced. Twenty-one percent were heads of their households. Their average age was 46 years. A higher percentage (33 percent) lived below the Kyrgyz poverty line of roughly \$3.20 per day than in the population of Issyk-Kul (23 percent) or the country as a whole (19 percent),⁴¹ meaning that participants in the felt project were relatively poorer than the rest of the region and the country.⁴² The research also shows that producers living in remote areas tended to be poorer—86 percent of them lived below the poverty line.

In the Kyrgyz Republic, employment opportunities for women in the formal sector are limited. Women earn less than men for the same work; a woman

makes only 63 percent of a man's salary in the formal sector.⁴³ People in the Issyk-kul region earn their living from pastoral farming and agricultural practices. They raise livestock, catch fish, or farm root vegetables, fruits, herbs, berries, mushrooms, and seasonal products. They also work part-time side jobs selling handicrafts, flowers, or processed food items at Sunday markets (as reported by JICA experts). Only 40 percent of households have a member with a regular job.

Handicrafts were the main business for 76 percent of survey respondents, and 25 percent have no side jobs. Ninety-two percent work as members of the CBO. Their average annual household income is about 173,684 Kyrgyz Republic som (2,382 U.S. dollar equivalent), with income from MUJI felt production accounting for about 19 percent of that number. Over 55 percent had some debt, but only 13 percent had any savings. On average, respondents had about nine years of experience making handicrafts and 3.7 years working for MUJI. They worked on average about 32 hours per week, and 49 percent worked at home.

ANNEX 2. MUJI EMPLOYEE SURVEY IN JAPAN AND TAIWAN, CHINA

1. The survey showed varying levels of awareness of different items. The following figures represent respondents answering that they “know very well” or “know” the item:
 - a. Organic cotton (Japan 85 percent; Taiwan, China, 92 percent)
 - b. Felt products from the Kyrgyz Republic (Japan 26 percent; Taiwan, China 27 percent)
 - c. Eco-bag from Laos (Japan 23 percent; Taiwan, China 58 percent)
 - d. Naturally dyed fabric products from India and Vietnam (Japan 22 percent)*
 - e. Coffee made in Doi Tung, Thailand (Japan 19 percent)**
2. Achievements of inclusive business initiative, from employee’s view:
 - a. Improving perception of the brand (Japan 76 percent; Taiwan, China 89 percent)
 - b. Contributing to sales (Japan 55 percent; Taiwan, China 70 percent)

3. Survey results when employees were asked about wool felt products made in the Kyrgyz Republic and about products made with organic cotton:

- a. Wool Felt Products from the Kyrgyz Republic

When asked for comments about the products, the employees in Japan said that they found out about the products when they arrived at the store, during store manager meetings, and when seeing them in the online store. Since then, their interest in getting information about the products—and about the Kyrgyz Republic, JICA, and the company’s social contributions—has increased. Regarding the future of Kyrgyz felt products, about half of the respondents (48 percent in Japan, 56 percent in Taiwan, China) think that MUJI should continue the initiative. Many of those respondents agree that even though the level of awareness of the products is low among employees, “this has potential to improve the value of the company” and “we should continue making products that support producers.” Those who said “neutral” or “should stop,” on the other hand, seem to lack any knowledge about the background of the products. Spreading product knowledge and making more information available could lead to changes in their opinions.

* Naturally dyed fabric products from India and Vietnam.

** Coffee made in Doi Tung (Thailand) are sold exclusively in Japan.

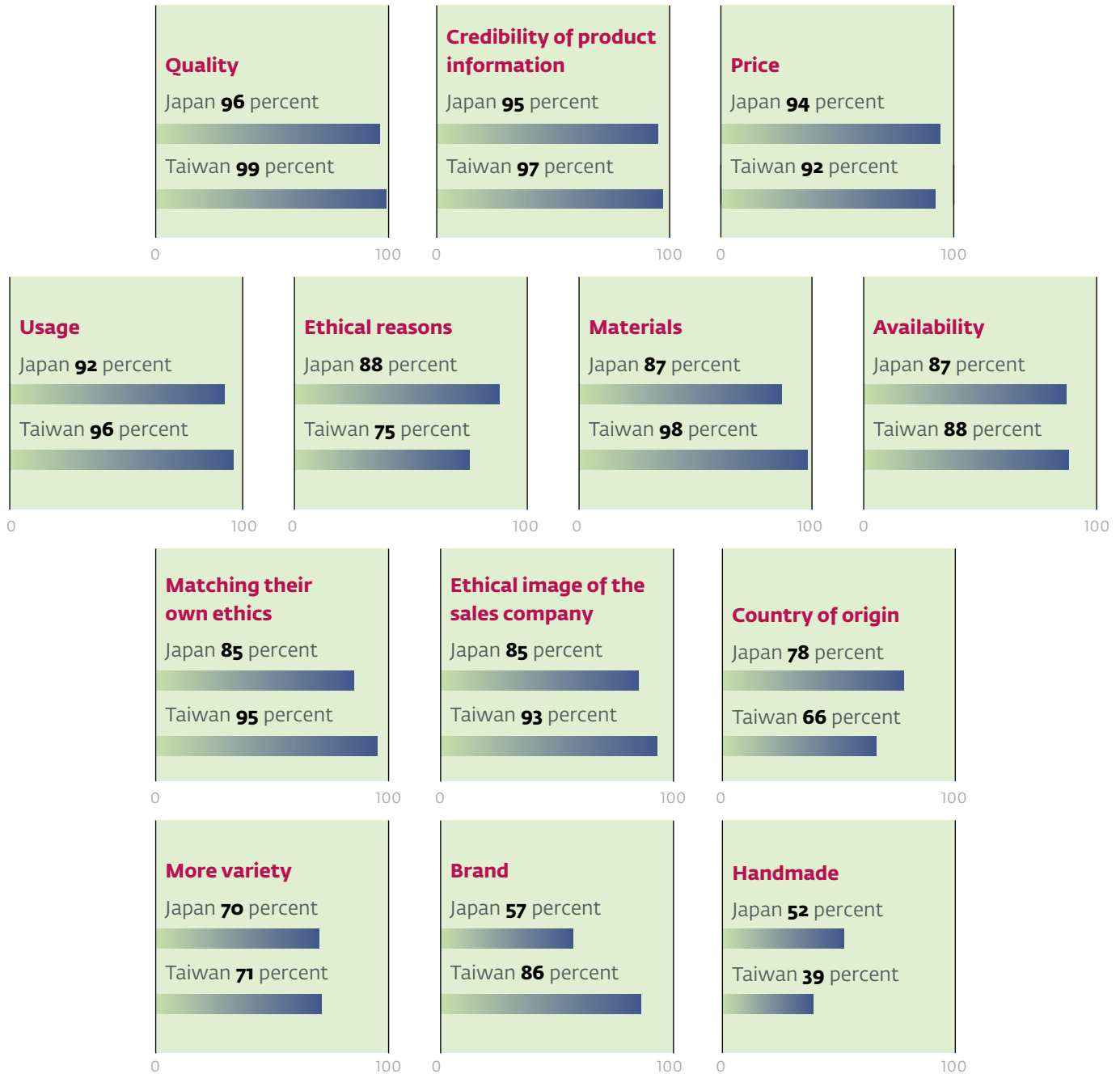
b. Organic Cotton

More than 80 percent of MUJI's employees know about the company's organic cotton products. In both countries, over 90 percent of employees (92 percent in Japan, 96 percent in Taiwan, China) think that MUJI should make a greater effort to move forward with this organic cotton initiative and said that "MUJI should take account of the producers when making not only this product but also others." On the other hand, those who chose "I don't know" or stated that the company "should not push ahead with that so much" stated that they "don't know [the products] well." These employees are likely to change their opinions once they get more product knowledge and information.

The survey team would like to note that the team had a high response rate to this survey. In Japan, the team chose possible respondents from a list of employees working at stores, then asked for their cooperation. The team posted its request on the bulletin board at company headquarters, and employees agreed to cooperate voluntarily. In Taiwan, China, the team asked for cooperation from all employees working at retail stores and at headquarters. Though the request to participate came from the company, the responses and the freely given comments indicate that employees are very aware of the issues we inquired about.

ANNEX 3. MUJI CONSUMER SURVEY IN JAPAN AND TAIWAN, CHINA

Key buying factors for ethical products:



According to MUJI membership mileage 12,715 respondents (38.8 percent of the total) had "Basic" mileage (0 to 19,999 miles). A total of 10,245 (31.3 percent) reached "Silver" level (20,000 to 49,999 miles); 6,261 (19.1 percent) reached "Gold" level (50,000 to 99,999 miles); 2,634 (8.0 percent) reached "Platinum" level (100,000 to 199,999 miles); and 906 (2.8 percent) reached "Diamond" level (200,000 or more miles).

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ENDNOTES

- 1 Basic infrastructure (roads, rail, and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education. Achieving the Global Goals opens up \$12 trillion of market opportunities in the four economic systems (food and agriculture, cities, energy and materials, and health and well-being), World Investment Report 2014, UNCTAD.
- 2 Better Business, Better World, Business & Sustainable Development Commission, January 2017. http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf.
- 3 Achieving the Global Goals opens up \$12 trillion of market opportunities in the four economic systems (food and agriculture, cities, energy and materials, and health and well-being).
- 4 Levi-Strauss, known for its Levi's products, encourages its contract manufacturing factories to comply with its "business partner terms of engagement" that set out environmental and labor requirements. The company evaluates the compliance of its contract manufacturing companies on a scale from 1 to 10, and those with good evaluations can get lower interest rates on short term loans.
- 5 "Financial inclusion" can refer to a range of support including providing financial expertise, promoting wider access to financial services, or ensuring that people can live economically stable lives.
- 6 Analysis by the United Nations' "Better Than Cash Alliance" (BtCA) shows that factories can save approximately 750 hours of production a month by transitioning to digital payments, and they can reduce costs by more than 85 percent within two years by paying workers via a hybrid mobile money/bank account. Additionally, moving toward a digital economy increases financial inclusion by drawing previously unbanked workers into the formal financial system and helping them to build financial skills. H&M is the first global fashion company to join the Better Than Cash Alliance.
- 7 BCI works with cotton farmers around the world to make cotton products that are both world-class and sustainable. Companies participating in BCI aim to source 100 percent of the cotton they use which is grown in a sustainable way. BCI also supports efforts to improve the lives and working conditions of the farmers and farmworkers. To date 73 companies have joined.
- 8 NIKE. See <https://purpose.nike.com/sustainable-cotton>.
- 9 2017 IKEA Group Annual Report.
- 10 IFC's Manufacturing Roadmap for Textile and Apparel released in 2020.
- 11 A store brand is a brand of a product that is produced by retailers. A store brand may also be called a private brand. It can be contrasted with a national brand, a brand of product owned by a producer.
- 12 MUJI. (n.d.). *Mid-Term Business Plan FY17-FY20*, Retrieved on March 22, 2019, from https://ryohin-keikaku.jp/ir/finance_results/mt_business_plan/.
- 13 Interview with Ryohin Keikaku Public Relations.
- 14 The Better Work Programme supports garment factories in eight countries to improve their working conditions and respect of labor standards. They assess compliance level of labor standards in participating countries. Where compliance is lacking, experts offer advice and training to resolve the issues. The program also provides an online system to share information about progress to other stakeholders. See homepage of Ryohin Keikaku: https://ryohin-keikaku.jp/csr/list_068.html.

- 15 MUJI. (n.d.). Mid-Term Business Plan FY17-FY20, Retrieved on March 22, 2019, from https://ryohin-keikaku.jp/ir/finance_results/mt_business_plan/. In April 2020, MUJI decided that the timing for achieving business targets under the Midterm Business Plan would remain undecided, and these targets will be positioned as a checkpoint in the new mid-term business plan that takes into account changes in the social landscape resulting from the impact of the coronavirus and will be released in April 2021.
- 16 In 2013, IFC awarded MUJI the Ryohin Keikaku Inclusive Business Leader Award. See Ryoshin Keikaku's homepage: https://ryohin-keikaku.jp/news/2013_1111_02.html.
- 17 A.Masuda & S.Ohira. 2017. "Hando meido seihin no kōzu burandingu: Ryohin Keikaku to JICA ni yoru inkurūshibu bijinesu ni okeru seihin kaihatsu" [Cause branding for handicrafts: product development for inclusive business by MUJI and JICA]. *Japan Forum of Business and Society Annals* [2017], 6, 61–84.
- 18 Soapstone is a natural rock mined in Kenya with a texture similar to soap. It is workable into different products. In Kenya, it is worked into colored animal figures and other popular souvenirs.
- 19 Refer to Chapter 2 and 3 on MUJI's Quality Standards for details about MUJI's quality standards.
- 20 The *One Village One Product* movement, which began in Oita Prefecture, is an initiative that aims for the revitalization inland or rural areas that lag behind in economic development through the cultivation of specialty goods utilizing regional resources. Through OVOP, JICA supports development at regional levels in developing countries.
- 21 This was result of the survey conducted by IFC-World Bank 39 aggregators working with a total of 23,000 artisans producing home accessory and fashion products in developing countries. See the summary report for analysis of the artisan aggregator firms.
- 22 MUJI. (2011). "Laos no koyō sōshutsu Shin "jibun no shirushi ga tsukerareru nunosei mai baggu tanjō" [Job creation in Laos: new "fabric eco-bag you can design"]", from https://ryohin-keikaku.jp/news/2011_0801.html.
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- 24 Interview with Ohzora, MGS manager.
- 25 The mission consisted of an IFC project manager and statistics expert and two onsite Kyrgyz researchers. IFC surveyed artisans working with OVOP+1 to better understand the challenges that artisans faced as well as how they perceived the project's impact on their productivity and on their wellbeing. The World Bank's SWIFT team helped with estimations of income levels. The survey contained questions calling for both objective and subjective responses. While the quantified objective responses may appear to be more accurate or precise, they can still suffer from reporting error. Further, subjective responses are often the only feasible way to accurately gather information about what the surveyed are thinking. This study therefore sought subjective responses to questions about artisans' likes, dislikes, motivations, opinions, suggestions, and—most importantly—perceptions of impact. Artisans can only guess the amount of impact that the project has had; like anyone else, they cannot know what would have happened in the absence of participation. Still, their perceptions are the best available measure of actual impacts. They are a useful—but not the only—input, and their responses can help inform decisions.
- 26 Average net income from OVOP+1 per artisan in 2017 is 33,000 som (approximately \$400 equivalent). Craftwork accounts for approximately 20 percent of total net household income.
- 27 A.Masuda & S.Ohira. 2017. "Hando meido seihin no kōzu burandingu: Ryohin Keikaku to JICA ni yoru inkurūshibu bijinesu ni okeru seihin kaihatsu" [Cause branding for handicrafts: product development for inclusive business by MUJI and JICA]. *Japan Forum of Business and Society Annals* [2017], 6, 61–84.
- 28 Ibid.
- 29 The employee survey was mainly conducted by Akiko Masuda with support from Ryohin Keikaku for survey execution and IFC for questionnaire design and translation.
- 30 MUJI (2018a). *DATABOOK, Fiscal 2017*, Retrieved on March 14, 2019, from https://ssl4.eir-parts.net/doc/7453/ir_material_for_fiscal_ym/47523/00.pdf.
- 31 The customer survey was mainly conducted by Akiko Masuda with support from Ryohin Keikaku for survey execution and IFC for questionnaire design and translation.
- 32 Ryohin Keikaku. 2018. "Muji ga umareru 'shikō' to 'kotoba'" ("Thoughts' and 'Words' that create MUJI"), 26–29 (in Japanese).
- 33 Ethically responsible business model to voluntarily operate in ways that contribute to society.
- 34 Interview with MUJI management.
- 35 Ibid.
- 36 Ibid.
- 37 Those living below the Kyrgyz poverty line (income=\$3.2 a day).
- 38 Interview with the President of Company A.
- 39 Since its establishment in 1980, MUJI has had three priorities for its product development: "Selection of materials," "Streamlining processes," and "Simplification of packages." MUJI goes to local production sites, selects materials and then streamlines production and packaging processes, eliminating any steps that are deemed unnecessary. MUJI uses raw wool and unbleached recycled paper and cotton as its primary materials. To streamline processes, MUJI develops products that take full advantage of the natural colors of materials so as to eliminate the need for adding extra colors. MUJI's focus on streamlining and simplification makes it stand out from its competitors.
- 40 Interview with MGS management.
- 41 The poverty rate, measured at \$3.20/day with 2011 purchasing power parity (PPP), was 19.3 percent in 2017 (World Bank in the Kyrgyz Republic – Country snapshot, October 2018, World Bank Group). The World Bank set the global poverty line using 2011 PPP.
- 42 Calculated using the SWIFT (Survey of Well-being via Instant and Frequent Tracking) tool developed by the World Bank. SWIFT uses poverty statistics and estimation models to quickly estimate household incomes. With 10 questions, SWIFT estimated the income and poverty level of the producers.
- 43 USAID 2018, World Bank, UNDP Human Development Indicators, International Labour Organization, ILOSTAT database. Data retrieved in September 2018. "Women, Business, Law" by the World Bank Group.

In the MUJI'S APPROACH TO BUILDING INCLUSIVE SUPPLY CHAINS section, the subsections *Business Overview*, *MUJI's Inclusive Business Activities*, *MUJI Employee Survey*, and *Customer Survey* were originally authored by Akiko Masuda in the Japanese version of this report, and adapted by Shino Saruta for the English version. The rest of the subsections were led by Saruta.



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