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Fast fashion strategy pays off for Worldtool

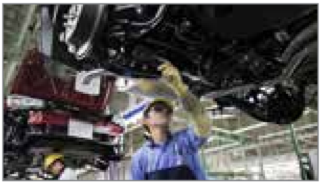
THE FAST FASHION MODEL is built on seamless supply chain interaction that gets products from conception to production to shop shelf as quickly and cheaply as possible. This becomes a strong customer proposition when it is bound together under a single brand identity.

On discovering that Tsutomu Nakajima was taking a similar approach to selling tools to amateur car enthusiasts, the CLSA Capital Partners team in Japan was intrigued. Nakajima's company, Worldtool, was opening up a market previously off-limits to hobbyists, offering products tailored to the needs of end-users.

"We recognized there was potential for strong domestic growth because the business model is unique. Worldtool has a fast retail model like that of H&M or Uniqlo, whereby it manages the entire supply chain. This can mean higher profit margins," says Yasunori Maeda, a director with CLSA.

The GP acquired a 55% stake in Worldtool in 2015 at an enterprise valuation of JPY10 billion ($82.8 million). An exit came last week when domestic DIY chain Royal Homecenter bought 100% of the business, while retaining Nakajima as CEO. The size of the deal was not disclosed, but during the holding period, Worldtool's store count has grown by more than 50% to 189 and its revenue has increased 30% to JPY9.6 billion.

"The company has increased market share every year since it was established. During our investment



Japan automotive: Gearing up

period, sales growth was always faster than overall market growth," adds Masamune Konakamura, another CLSA executive. "My guess is that the big DIY companies aren't growing fast in this area, though not shrinking either, while we have gained market share from mom and pop shops."

One of the initial challenges for the GP was putting in place a management structure that had not evolved in step with the overall growth of the business. This enabled continued expansion of Worldtool's retail network, including entry into overseas markets. They targeted Thailand first – over 80% of the vehicles there are made in Japan – and there are now six outlets in the country. There was also a concerted push into e-commerce, with online sales increasing 80% during the holding period.

Japan's automotive tools market is thought to be worth JPY100 billion. It is a large enough number to attract copycats but Konakamura argues that Worldtool's model is hard to replicate. A key differentiator is the focus on own-brand products, which account for 70% of sales. It is not just a matter of enjoying higher margins than for third-party brands; Worldtool adheres to the fast fashion ethos through close coordination between the product design and sourcing operations.

"There are barriers to entry to this business – that's why Royal Homecenter wanted to acquire the company," he explains. "It comes down to procurement. You need people who are experienced. Worldtool procurement team, including Mr. Nakajima, travel around China, India and Taiwan looking for products they can launch under the private brand. That is difficult to copy."