

# Dept. Stores Realigned into 4 Major Groups

The realignment of Japan's department store industry is accelerating, transforming the industry into Big Four groups each with ¥1 trillion in annual sales. It comes against the backdrop of intensifying competition with other retailers, including major supermarket operators that are opening large shopping malls, in addition to Japan's shrinking domestic market with its population beginning to decline. The department store industry's combined sales fell for a 10th straight year through 2006. Department stores are trying to consolidate and expand their operations through mergers out of the sense of crisis for survival.

Mitsukoshi Ltd., Japan's fourth-biggest department store chain, and Isetan Co., the fifth-largest, have agreed to integrate operations April 1, 2008, under a holding company to create the country's No. 1 department store group. Mitsukoshi, which started as a *kimono* shop in 1673, is strong in fashionable clothing, while Isetan is popular with trend-conscious young shoppers. Mitsukoshi, reel-

ing from six years of falls in operating profit due in part to a real estate investment debacle, had sought a partnership with a high-profile American department store group. But negotiations eventually fell apart, and Mitsukoshi subsequently agreed to merge with Isetan, judging that there is a limit to its own management reform.

The merged company, Isetan Mitsukoshi Holdings Ltd., would generate about ¥1.58 trillion in annual sales. In the department store industry, four major department store groups of a "¥1 trillion yen club" are poised to compete with each other for survival. The club would consist of Isetan Mitsukoshi Holdings, J. Front Retailing Co. (a union of store chain Matsuzakaya Holdings Co. and Daimaru Inc., formed in September), Millennium Retailing Inc. (the holding firm for the Seibu and

Sogo department stores), and current industry leader Takashimaya Co. Yet, some analysts point out that it would be difficult for department stores to produce tangible synergistic effects only by expansion of scale through mergers as they have been competing for such common characteristics as brands and sophisticated merchandise. The future of intensifying competition in the department store industry is far from clear.

*Photo: Kyodo News*



Many reporters pack a press conference room as the presidents of Mitsukoshi Ltd. and Isetan Co. shake hands after announcing their agreement to integrate business operations.

## Top Court Upholds Defense vs. Hostile TOB

In a key ruling that could have great impact on corporate mergers and acquisitions in Japan, the Supreme Court has given its first ever specific endorsement to a Japanese company's defense measure against a hostile takeover bid. The ruling, which has come on Bull-Dog Sauce Co.'s measure against an unsolicited bid by US hedge fund Steel Partners, has provided some standard for Japanese firms' development of measures against hostile TOBs, although there has been concern that corporate managers could easily introduce anti-takeover measures to protect their positions to the disadvantage of shareholders.

The Supreme Court said shareholders should be left to decide whether any specific

TOB would affect corporate values. It then endorsed Bull-Dog's anti-takeover measure that was supported by more than 80% of Bull-Dog shareholders at their general meeting. Steel Partners complained that the measure was unfairly disadvantageous to the bidder because Bull-Dog introduced the measure after the US hedge fund launched a tender offer for Bull-Dog shares. Given that the measure was an emergency action responding to the offer and that Steel Partners was to be given some benefits, however, the measure should not be taken as unfair, the court said.

While some industry people are concerned that the judicial branch's endorsement of an anti-takeover measure could invite foreign investors to criticize the Japanese market as

closed to foreign players, others have welcomed the court decision as giving a standard to make it easier for Japanese companies to develop anti-takeover measures. More than 300 publicly traded companies have decided to introduce measures against hostile TOBs in Japan. In fact, however, it may be difficult for any company to get approval by 80% of shareholders on any anti-takeover measure as seen at Bull-Dog. How companies will develop anti-takeover defense measures in response to the Supreme Court decision may be a future focus of attention in Japan.

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