

The Expansion of the Service Industry in Asia – the Example of Shanghai Lawson

By Niinami Takeshi

LAWSON operates 283 stores in Shanghai, China (as of December 31, 2005). In a city which is rife with 4,000 convenience stores including locally funded ventures, Lawson has established a position as a store popular with young people. From 2004, it has registered single-year profits, and has put down local roots as a business.

Lawson's business in Shanghai started with a joint-venture agreement signed in January 1996 with the Shanghai HuaLian Group (now, the Shanghai BaiLian Group), a local distribution group. The preparation period was just over one year. The real start of the business was the links between Shanghai's municipal government and the top management of Lawson's parent company at the time, Daiei. Since the 1992 talks given by Deng Xiaoping when he visited the south, the Chinese government has maintained a policy of encouraging economic growth, and since then, has actively enticed overseas companies

to China. In the supermarket sector, Japan's Yaohan moved into the Chinese market, and Chinese state-operated stores started to open. Against this background, the Daiei Group, which focused on general supermarkets, sought what it could do in China, and chose to get involved with Lawson, which operates convenience stores. Until then, China had no real convenience stores, and Daiei determined that it would be better to choose a business that did not yet exist rather than operate supermarkets, of which there were many competing with each other. After three months in April, Daiei had established a joint venture, and another three months after that in July, opened its first convenience store. This first branch was in Shanghai's Gubei New Area where many overseas businessmen, including Japanese, live. Along with the first branch, Daiei opened a second store in Tianlin East Road, a new residential district for local Chinese and an area con-

taining a high proportion of China's well-off citizens. So in the beginning, Daiei sought to put its overseas retailing image out in front and appeal to foreigners and wealthy Chinese.

This strategy was wonderfully successful. Both the Gubei and Tianlin East Road stores attracted large numbers of customers. Because China had had no convenience stores up until then, the Chinese saw them as something new and fresh, and the fact that they were located in high-class residential districts and special areas where foreigners lived made them chic in the eyes of local young people. When you looked inside, Japanese-style know-how was everywhere in the products and services. They sold unique Japanese foods such as *onigiri* rice balls and *oden* (Japanese hot pot dish). At that time you could find Japanese foods like *sushi* and *sashimi* in Shanghai, but you could only buy them from a limited number of outlets such as department stores. The appearance of convenience stores in residential districts meant that people could now buy these items in their neighborhood.

While the Chinese were surprised at the appearance of these new types of shops, they were also surprised at the selling of chilled *obento*, lunch boxes. In China, it was normal to make lunches on the premises and sell them warm. Chilled lunches had never been put onto store shelves and bought or sold like this before. People's surprise invited trial-buying, just to see what they were like. In the first year, the stores steadily expanded in various areas, including those in which large numbers of people on average incomes lived, and by December, 14 outlets were operating.

Any novelty, however, eventually wears off. As customers were getting over the surprises of the new lineup, some stores began to have difficulties. One reason was that, as a result of emphasizing quality, they carried goods

Photo: Lawson, Inc.



A Lawson store in Shanghai. Lawson currently has 283 stores in the city.

that were mostly higher priced than those in neighboring supermarkets, and struggled to sell them.

So Lawson returned to its starting point and reaffirmed that convenience stores were not for a minority but were “convenient” precisely because of their broad appeal to ordinary people. Accordingly, Shanghai Lawson began actively offering the products sold in local supermarkets. But around that time, local supermarkets were already engaged in price competition and product prices in convenience stores had become a little higher than in supermarkets.

On the other hand, in Shanghai, TV and magazines were featuring a torrent of information about Japan, Taiwan and Hong Kong. Due partly to this, young people saw convenience stores as trend-setting places. For example, oden became trendy. Young people strolled around town eating skewered oden from a cup containing soup. At one time, this became popular as a kind of fashion statement for them, and later became widely accepted.

In addition, because Japanese-style hygiene management was practiced, Shanghai Lawson stores enjoyed a sanitary image. They could not beat supermarkets on price, but on cleanliness and brand appeal. In addition to even better product management, one way to accomplish this was by taking photos of bento factories, bakeries, and other places where the food was produced, and displaying photo panels in the stores. Through these activities, Shanghai Lawson stores emphasized the security and safety they could offer customers.

Although people tend to think that Chinese do not have much affinity with hygiene, security or safety, in fact the opposite is true. Because China is such a large country, it lacks a properly developed distribution network. As a result, careful temperature-controlled transportation of foodstuffs is not possible. This is why most people buy their dinner live and take it home to cook. There is nothing fresher than what is still

alive. These fresh ingredients are invariably cooked. A basic tenet of Chinese thinking is looking after one’s own safety.

One particular feature of China is the one-child policy adopted at the end of the 1970’s. Parents lavish attention on their single child and make the utmost effort to keep the child safe. The children born under this policy are already becoming adults now. Consumers who have lived under this environment are economically well off and want to buy good quality products, even at slightly higher prices. The policy of security and safety followed by Lawson in Shanghai was well matched to China’s consumer market.

Since 2000, Shanghai Lawson has enjoyed a tail wind. This has come from SARS (the Severe Acute Respiratory Syndrome) that spread from Southeast Asia to East Asia. Awareness of hygiene management in the region has grown and led to an increase in the number of customers patronizing Shanghai Lawson stores, which have maintained a steady focus on hygiene management.

While the stores’ base has continued to firm, the number of Lawson stores had not increased much by the end of the 1990’s. The reasons were the upsurge in real estate prices and more intense competition to secure property. Meanwhile, the number of local state-funded convenience stores increased dramatically. Purely in terms of store numbers, they were way out in front. Having said this, however, Lawson’s position in the Shanghai market has not changed. It continues to enjoy strong customer confidence.

For these reasons, Lawson has put down strong roots in Shanghai and is supported mainly by customers in their 30s or below. Since the introduction of the single-child policy, young people have been better off economically and are willing to shop at “trendy Lawson” even if the price is a little higher.

Shanghai Lawson’s strength is, first, that it formed a good relationship with its joint partner. The BaiLian Group is

the top distribution group in China. It can call on merits of scale in products and store development. The second strength is that Shanghai Lawson offers differentiated products. With its obento lunches, oden, breads and numerous other products, it enjoys the advantage of superior quality. It can produce such high quality because of the know-how built up from operating in Japan for 30 years. The third point is that Shanghai Lawson has achieved a certain scale. At the end of December 2005, it operated 283 outlets, and overall, the chain was large enough to stay in the black. Its fourth strength is its brand power. Because of its hygiene management and well-organized services, Lawson enjoys an established image and this has helped to enhance its brand power. As a result, daily store sales are 1.5 times those of other local chains. Shanghai Lawson maintains high daily sales because of a confluence of various factors, including product strength, hygiene management and brand power.

The future of Shanghai Lawson looks bright. Overall, China is maintaining a high economic growth rate of over 7%. As a market, it appears quite promising. On the other hand, convenience stores, which have been growing rapidly in Shanghai since 2000, have already reached the stage where some natural weeding out is inevitable. Comparing 2004 with 2005, the number of convenience store outlets in Shanghai fell by about 5%. But even in such a situation, a chain offering a strong base of quality, service, and hygiene will survive. In 2005 when all the chains saw a reduction in outlets, Shanghai Lawson managed to add 75 new stores. While there will be some fall off, from 2006 the number of outlets is expected to steadily increase. Shanghai Lawson will continuously work to offer higher levels of quality, service, and hygiene, and operate stores that meet the needs of local people.*

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