

Change and Continuity in Japanese Retailing

By John A. Dawson

Japanese distribution, and particularly retailing, is regularly characterised as "fragmented," "inefficient," "perplexing," "backward." Certainly it is non-Western and this should not be a surprise as retailing, by its everyday contact with consumers, reflects strongly the prevailing cultural and social conditions. But culture changes and so demands responses from retailers; also, on occasion, retailers and distributors themselves promote social change rather than respond to it. Thus, so long as commentators and analysis continue to be mesmerized by the "backward" and "inefficient" aspects of Japanese retailing they are in danger of being blind to the considerable changes underway and of missing opportunities presented by this large and dynamic market.

The recent McKinsey report on the potential for business in Japan⁽¹⁾ suggests as a truism that "the Japanese distribution system, which has evolved over the past three centuries, is one of the most perplexing and peripatetic in the world" (p.26) but also adds that the system is undergoing "major evolution." Murata⁽²⁾ writing at the time of the start of this "major evolution" in the early 1970s suggests that "outworn practices are particularly obvious in our distribution methods" (p.4).

Tajima⁽³⁾, Yoshino⁽⁴⁾ and others also writing in the early 1970s similarly point to the fragmented nature of distribution, the plethora of small business, circuitous distribution channels, custom-bound trade relationships and many other features which from a European or American standpoint might appear to be inefficiencies. They draw a picture of a distribution system poised for and starting to change.

Evolutionary change

New distribution methods and ideas are extending rapidly but they exist alongside some very traditional concepts. Evolution, albeit rapid, rather than revolution is under way.

Four features are useful in explaining

contemporary retailing in Japan: the first is the similarity to change which took place in Europe in the 1960s; the second is the similarity to present-day Western change; the third is the change special and indigenous to Japan; and the fourth is the continuing adherence to traditional Japanese retailing.

The first group are changes reminiscent of Britain a decade and more ago. Examples which may be listed include:

1. Evidence for the beginnings of a major decline of independently operated, often small, shops. As in Europe and the U.S., the first sector to show decline is the general food group but there are signs also of decline in some non-food stores.
2. A move to self-service sales methods is present, particularly in food retailing but it is also developing in the non-food trades.
3. Considerable growth in the number and market share of large self-service units selling a wide range of products has occurred; again this is most evident in the food trades with the expansion of the

supermarkets sectors but it is also to be seen in non-foods with the emergence of a DIY (do-it-yourself) sector and of large furnishings stores.

4. There is now growth of chain operations, both corporate and contractual, which for many reasons have not blossomed previously in Japan. Virtually absent in the 1960s, corporate chains now account for over 15% of sales. Although mainly in food and department store sectors, they are developing in other sectors, particularly clothing and fashion goods. Because of the lack of small regional chain store groups, the growth of corporate chains is by new construction and company expansion rather than by takeover and merger.

5. An increasing contrast between major city and small town retailing is taking place with many of the changes and new style retailers concentrating their investment in the larger cities and their extensive and growing suburban districts.

The data presented in Table 1 illustrate the magnitude of these changes, all of



POS system in use at a supermarket

John A. Dawson is a professor of distributive studies at the Department of Business Studies, University of Stirling in Scotland.

which are likely to continue for some years as they are now well-established. There are, however, attempts to manage the rate of change. Public policy measures are seeking to cushion the independent retailer from the full force of competition⁽⁵⁾ and to encourage small retailers to cooperate in improving their local environment. A form of planning control has been introduced in an attempt to slow the growth of new large stores,⁽⁶⁾ and a stated aim of the recently introduced national strategy for retailing⁽⁷⁾ is to reduce the differentials between large and small towns, and governmental investment incentives are encouraging the development of voluntary chains.

Adapted imports

Alongside these changes familiar to observers of British or European retailing 15 or even 20 years ago, are others which are comparable to developments in Europe and the U.S. in the mid-1980s. The dynamism of development is such that a long period of change in Western society is being compressed into a short period in Japan but not all Western innovations are adopted—appraisal, selection and adaptation occurs before Japanese companies follow Western trends. Examples of changes of this second type are:

1. The increasing use of computers is very apparent: of the 106,344 computers in use in Japanese industry in March 1982, 45,689 were in the distribution industry. The first scanning installation became operational in October 1979 and estimates of the number of installations in mid-1984 suggest 2,700 in use although almost 2,000 of these are in the 7-Eleven convenience store chain.
2. There is a rapid increase in convenience stores, from 1,405 in 1977 to 3,450 in 1982 and on to an estimated total of over 5,000 in 1984. These are usually franchised and are associated with major retail corporations or with wholesalers. The 7-Eleven operation, part of Ito-Yokado, a large diversified retailer, opened its first store in 1974 and now has close to 2,000 franchised operations. As well as the usual merchandise mix of convenience stores, the shops offer a range of services such as theater tickets distribution, document copying, dry cleaning, etc. Management methods and manuals have generally been brought in from the U.S. and have been adapted to Japanese operating conditions. Most of the major retail corporations now have a convenience store division.
3. Larger corporations have increased

market power and have devised several clear types of store format. The Seibu group provides a good example of this trend with its chains of department stores, variety stores, supermarkets, specialty clothing stores, DIY units and fast-food restaurants as well as being the developer of Parco shopping centers.

4. There is an internationalization of operations. Examples of this trend are: the link between Seibu and Habitat resulting in the development of Habitat stores in Japan; the agreement between Jusco and Safeway to allow Safeway brands to be sold in Jusco supermarkets; the link between Ito-Yokado and the Southland Corporation enabling the transfer of management know-how and the rapid development of the 7-Eleven convenience store chain. These are just a few of the associations in store-based retailing but there are also links in mail order both with Sears Roebuck in the U.S. and Quelle in West Germany.
5. More emphasis in merchandising on own brand products and particularly on products relating to new life-styles is present. Consumer demand and consumer behavior are changing dramatically both as a response to general social change and to retailer activity. There is a clear trend, reported in several research studies, away from concern about quantity and price toward awareness of quality, individuality and sophistication of the product.

Indigenous change

The third series of changes are those associated with processes indigenous and largely unique to Japanese commercial practice. The two discussed above are associated with the importation and adaptation of innovations, retail ideas and consumer life-styles. Appreciation of this balance amongst indigenous, imported and adapted change is crucial to an understanding of Japanese distribution and is central to a number of studies by Japanese scholars.⁽⁸⁾ Examples of changes which are essentially Japanese are included below:

1. There is continued growth in major metropolitan areas of shopping districts associated with railway stations. The retail districts which are growing fastest in the Tokyo and Yokohama Metropolitan regions, for example, are around key stations on the rail network. At these foci multi-story and underground shopping centers are being built providing comparison and fashion goods shopping. Superstores, variety stores, supermarkets, furnishings centers and large DIY units are also under construction and not

unusually branches of major department stores are being built.

2. New technology is used primarily to enhance customer service with the slogan "High Tech—Human Touch" frequently being used in this connection. New technology is perceived as a way to increase the quality of retailing, through added value of services, as much as a way to reduce costs.
3. Commercial activity is linked to social, cultural and community activities, not only for employees but also for the host community of the store. This is termed the "new role for distribution." It involves not only the physical provision of non-retail and associated activities but also making distribution the chief "relay point for the flow of producer-consumer information"⁽⁹⁾ (p.20).
4. The search is increasing for architectural, operational and managerial techniques specifically aimed at more efficient use of the expensive and scarce resource of space.
5. Government policy responses to the politically powerful small shopkeeper group include attempts to limit large store expansion, tax relief on certain types of development, direct encouragement of voluntary groups, etc. These pro-small retailer policies are part of an attempt to move toward a unified policy of distributive development which is unique to Japan.

Traditional values

Alongside these trends creating change and investment in retailing there are also features of traditional Japanese distribution which remain strong factors in contemporary patterns of retailing.

1. There is a search for consensus rather than conflict-based solutions to the pressures created by structural change in the industry. This involves government participation in overall planning of the sector, as mentioned already, and widespread concern by large and small retailers alike over the likely demise of large numbers of independent retailers in the coming years.
2. The continuation and strengthening of complex trading relationships involves various types of discount. Because many business relationships are based on evolving personal contacts, the whole process of purchasing operates quite differently in Japan than in W. Europe or the U.S. The structure of discounts is extremely complex, with discounting used as a mechanism to consolidate long-term trading relationships and to encourage repeat transactions amongst retailer,



The 7-Eleven operation first introduced to Japan in 1974 now has close to 2,000 franchise operations.

wholesaler and manufacturer.

3. Patterns of consumer purchasing behavior, taste and buying habits, involve a high frequency of shop visits by home-centered women shoppers. Although habits are changing, there is still a large segment of traditional consumers used to shopping everyday for fresh food.

4. A tradition of high levels of customer service in retailing and related activities means that retail employment is both numerous and has a relatively high status. Customer service is an integral part of retail operations not only in the large department stores but even in "high technology" stores. The significance of packaging in product presentation, the high level of employee-customer interaction during transactions (even in supermarkets), the extensive provision of information to the consumer by store employees, by in-store directories and by signs, are all examples of this concern with service.

5. There is a high degree of involvement of wholesaler and manufacturer in the display and selling of goods within stores. In many cases, in department stores the goods are sold by manufacturers' employees with the retailer really just renting space to a manufacturer or wholesaler. Even with the smaller retailers the wholesaler is involved closely in displays and in providing advice to the retailer.

"Japanization"

In the juxtaposition of change and continuity in Japanese retailing, this traditional trade sector is undergoing a complex process of adaptation to the new economic order. Lazer⁽¹⁰⁾ suggests the process "is a massaging of things Western

to adapt them to Japanese culture, resulting more in the Japanization of Western culture than the Westernization of Japanese culture" (p.234)

Government is intimately involved in this process. The Industrial Structure Council, an agency involved in guiding economic growth, saw government's role in the 1960s and 1970s as stimulating the quantitative expansion of distribution to keep it in step with the expansion of production. In consequence, policies were aimed at introducing Western-style efficiencies into retailing. The role more recently, and the planned role for the 1980s, is to look for ways to improve the quality of distribution services for customers.

The report of December 1983 published by the Industrial Policy Bureau of the Ministry of International Trade and Industry illustrates this new view and provides pointers for government policy toward retail and wholesale development over the next decade. The policies advocate much more encouragement of the essentially Japanese characteristics of retailing—new technology to provide consumer benefits, a trading response to traditional and modern Japanese life-styles, encouragement of collaboration amongst retailers and wholesalers, extending the social and cultural contribution of retailing, as well as others.

The frequently stated view that all Japanese distribution is somehow backward or underdeveloped must be questioned seriously. The changes described in this paper are illustrative of some of the developments occurring in retailing. The wholesale sector and integrated distribution⁽¹¹⁾ are changing just as rapidly as they respond to the new economic order and new technologies. Distribution, per-

haps because of its long history as an organized industry and its role in the early development in some of the large trading houses, has a higher status in the Japanese economy than is the case in Europe where the term "a nation of shopkeepers" can be one of national abuse. Because of this status, although traditional in outlook, Japanese distribution has been a strong and coherent industry sector for many decades. To argue that it is backward is to fail to understand the effectiveness of the sector in distributing goods nationally. Now as the distribution industry invests heavily and changes rapidly it promises to increase even more its economic and social power in Japan's new service economy. ●

References:

- (1) McKinsey and Co. (1983) *Japan Business: Obstacles and Opportunities*, Wiley, New York.
- (2) S. Murata (1973) Distribution in Japan, *Wheel Extended*, 3(2), 4-11.
- (3) Y. Tajima (1971) *How Goods Are Distributed in Japan*, Walton-Ridgeway, Tokyo.
- (4) M.Y. Yoshino (1971) *The Japanese Marketing System*, MIT Press, Cambridge, Mass.
- (5) Small and Medium Enterprise Agency (1981) *Small Business in Japan*, MITI, Tokyo.
- (6) J.A. Dawson and T. Sato (1983) Controls over the Development of Large Stores in Japan, *Service Industries Journal*, 3(2), 136-145; K. Seiki (1983) Retail Outlets Seek Harmony with Local Communities, *Business Japan*, 5, 48-56.
- (7) Distribution Committee of the Industrial Structure Council (1983) *Prospects for the Distribution Industry in the 1980s: Structure and Policy*, MITI, Tokyo. See also J. Dawson (1984) Japanese Retailing, *Retail Consortium Bulletin*, 12, 6-7; S. Ogawa (1984) The Distribution Industry in the 1980s, *Journal of Japanese Trade and Industry*, 3(3), 12-15.
- (8) Y. Tajima (1984) Japan's Distribution System: An International Comparison, *Journal of Japanese Trade and Industry*, 3(3), 16-17.
- (9) K. Konaga (1984) Future of Japan's Distribution Industry, *Dentsu Japan: Marketing Advertising*, 11(2), 20-23.
- (10) W. Lazer (1984) Comparative Insights into Japanese Marketing: Myths and Realities, in: E. Kaynak and R. Savitt (editors) *Comparative Marketing Systems*, Praeger, New York, p.233-246.
- (11) T. Akiyama (1983) Big Wholesalers Shortening Food Distribution Channel, *Dentsu Japan: Marketing, Advertising*, 23, 27-32.

This article is an edited version of one which appeared in *Retail & Distribution Management*, March/April 1985.