Japanese Department Stores in Hong Kong

By Fred F. Yoshino

Carried away with a feverish spending spree of shoppers craving for upmarket brands like Armani suits and Gucci bags, department stores in Japan had a ball during the economic bubble of the late 1980s. In the go-go years, posh new stores opened up one after another with gala decor and on a grand scale, while some opted for branching out aggressively just to preempt their competitors. Now that the bubble has burst, they are singing the blues, wondering where all those cash-rich big spenders have gone.

Price-busting discounters and mushrooming volume sales chains are snatching away increasingly value-conscious customers from the nation's department stores. With the tradition of lifetime job security crumbling and a murky future, Japanese consumers are tightening their purse strings and thinking twice before making a buying decision on anything priced with a lot of digits. Industrial analysts blame department stores for having out-priced themselves, and the industry as a whole has been thrown into a serious setback, with sales dropping for over 20 months.

In striking contrast, Hong Kong's department stores are booming with a rapidly growing number of sophisticated consumers, particularly in the middle to upper class bracket who can appreciate a broader selection of merchandise and better service for a reasonably higher price than they pay at other outlets. Japan's presence in the territory's industry is dominant, with department stores' market shares surpassing a hefty 60%. In total, 11 Japanese department store companies are established here, operating 22 outlets in a variety of sizes, from the territory's largest Jumbo Sogo to petite but chic Isetan with only 2,300m² of space.

The degree of localization for general merchandise stores (GMS) is much higher than department stores which depend on tourists for a small portion of sales. In the wake of the Tiananmen Square incident in 1989, Yaohan shifted its headquarters to Hong Kong. Despite concerns about the timing and Hong Kong's uncertain future, Yaohan Chairman Wada Kazuo's drastic decision and foresight proved correct and paid off, producing remarkable results with several branch stores. Yaohan is now diversifying its business to toys, pastries, shoes, restaurants, and what not, while opening a department store in Beijing.

Tokyu Department Store and Seiyu have bought into local stores, though ownership is exercised very cautiously giving much regard to sensitive responses that may arise from their counterparts. They are still run by Hong Kong Chinese under the same names as before. In the case of Tokyu, cooperation is working ideally with a new member of its family, Dragon Seed, a high-fashion oriented outlet with a long history in Hong Kong. Dragon Seed provides the knowhow and assistance to its parent company, Tokyu, on how to purchase from European suppliers the kind of fashion items suitable for the Hong Kong market. In return, Tokyu helps Dragon Seed with finance and other management resources it can offer.

A touch of Tokyo

Tracing back the history of Japanese department stores in Hong Kong, Daimaru, which opened its first store in 1960, was the pioneer followed by Isetan, Matsuzakaya, Mitsukoshi and Tokyu in succession. The initial mission was to introduce Japanese products to Hong Kong. The timing was right, consumers hailed the landing of Japanese department stores which offered the opportunity to improve their lifestyle. People rushed to experiment with tastes and designs different from what they could get at local or European-type outlets. For instance, the first campaign slogan for Tokyu was "The Feel of Tokyo."

Tokyo fashion quickly captured the minds of Hong Kong people, especially young female consumers who were turning their attention to something more fashionable but still amenable to their Oriental background. Today, Japanese clothing and processed food are abundant and very much liked by locals. Nightly pageants on both sides of Victoria Harbor are colored with neon signs that read Canon, Epson, Citizen, Mita, etc. Sushi, karaoke, Nintendo games, the Japanese popular cartoon Dragon Ball ... they are all favorites here. Things Japanese have become a part of daily life, and nothing has more contributed to this phenomenon than department stores.

By the mid-'80s, the second rush arrived with other department stores landing ashore in droves, focusing on the dramatically increased affluent tourists from home who visited with a lot of appreciated yen in hand. Free port Hong Kong made the most attractive destination for those bent on getting top European brands for far less money than back home. During the latter half of the '80s, department store sales by Japanese tourists accounted for as much as 20% or more of the total. Today, the share is much lower due to the decline in the number of Japanese visitors, and the narrowing of the price gap of famous brands between Japan and Hong Kong. Further, local consumers, as their disposable income is fast approaching the level of their Japanese counterpart, have grown as the mainstay of Japanese department stores, particularly in terms of household, for in Hong Kong the majority of women, either married or single, work fulltime.

It is not only merchandise per se that Japanese department stores have brought to Hong Kong, but also a new concept of customer service that was alien and neglected here. Until recently, customer-first attitude was seldom seen in most retail stores. Shoppers were not greeted courteously; litter cluttered the store floor while sales clerks just stood by chattering and giggling. Such being the case, the Japanese method of waiting on customers had a tremendous impact on the improvement of the retail business in Hong Kong. But it should also be noted that the learning process is not a one-way street. There are a host of areas where locals excel and the Japanese side can learn to conduct business more effectively from them.

Problematic but profitable

Competition is fierce, especially among those located in the prime shopping district of Causeway Bay on the Island side, where as many as eight stores are packed within a stone's throw. By nationality, two are of mainland Chinese capital, another two are U.K. affiliated (Mark & Spencer and the erstwhile colonial flagship, Lane Crawford—now owned by a Hong Kong Chinese firm), and the rest are from Japan: Daimaru, Sogo, Mitsukoshi, and Matsuzakaya. The four stores have been thriving together year after year thanks to the area's rapidly growing attractiveness as a shopping mecca. But with the advent of Jumbo Sogo, which has recently expanded its sales floor space to 25,500m^2, about twice as large as the other three rivals, it is feared that they will plunge into a merciless war of survival.

Sogo's Managing Director Kawauchi Takuya retorted to such a dire scenario by saying, "Sogo's expansion and comprehensive renovation this time further activated the area, attracting more shoppers from other parts of Hong Kong. The whole pie gets much bigger for everyone. So, I don't buy the argument that only Sogo gains at the sacrifice of others." Kawauchi also added, "As a department store in the true sense of the word, we should be able to cover everything possible, satisfying the needs of all." Constrained by limited space, other department stores can only afford to carry at most 30 to 50 lines of merchandise, whereas Sogo claims to have as many as 100. "This is the Department Store" is the proud sales pitch of Sogo, and they promote its merit by providing the convenience of "one-stop shopping." Another advantage of Sogo is that it owns the store's premises so that it is free from exorbitant rent increases.

Daimaru, conceivably the most susceptible to the impact of Jumbo Sogo, is undauntingly defiant in pursuing a niche strategy, and distinctly differentiating its merchandise lineup from Sogo. Young casual fashion is Daimaru's forte, and one can find Hong Kong's top five popular brands all in stock here. "No use to wrestle with Sogo on the same sumo link. But even Sogo can't be strong everywhere. We position ourselves strategically to stay competitive," said Daimaru's Managing Director, Matsumoto Tadao. He believes going a step ahead of the pack is key to success in Hong Kong where consumer tastes change swiftly. This is why Daimaru carries 20% of what he calls "proposition merchandise," an equivalent of star in marketing terminology, in addition to 60% of cash cow items and 20% of less profitable but necessary goods. Matsumoto sees "change is a chance," for a large ship like Jumbo Sogo can't make a quick turn.

Facing Sogo across the double-decker streetcar-running street in the busiest section of the district, Mitsukoshi keeps its cool, and optimistically hopes that area traffic will become much heavier with the expansion of Sogo and the opening of grand-scale shopping centers nearby. Mitsukoshi's main target is huppies (yuppies Hong Kong style) and

Daimaru (above), the forerunner of Japanese department stores in Hong Kong

Jumbo Sogo (right), larger than other department stores juniors who like to shop in a suave atmosphere. The manners of sales clerks here are refined, and it is comfortable to shop in, for the whole store is neatly, but elegantly, arranged. Coping with the challenge of Jumbo Sogo, Mitsukoshi is polishing up the quality of its customer service.

Managing Director Saito Yoshio said, "We would like to cater to our customers' every whim by upgrading the way we serve them. This is not just a place to sell goods. Perhaps, things could be cheaper some place else, but we can impact our knowledge and information about products for the best interest of our customers. Suggestions are also implemented if so requested. In the cosmetics section, for example, beauty counseling is given free of charge with photos taken before and after a trial facial make-up. For electrical appliances, we have a separate service counter for repair and installation." Saito's "Zero Customer Claim" campaign also helps convey the reliable image of Mitsukoshi. "Service makes the difference" is his motto, and it is now shared with his local staff.

While poised, Matsuzakaya is supported by its established customer base composed of the upper middle class, particularly women in their 30s to 50s. Chanel is the store's bestselling brand, and its seasonal stocks are sold out all too soon. The new management under Shirota Nobuo, managing director, is in the process of expanding their customer base to the young market which is fast growing in Hong Kong. Matsuzakaya's original European apparel is laid in stock through AMC (a common purchasing organization created under the leadership of the American department store chain, Bloomingdales). For the time being, the shock of Jumbo Sogo will be felt, but it is anticipated that Matsuzakaya can ride out the critical period, and become toughened in the long run.

Shining Seibu is housed in a ultramodern shopping mall called Pacific Place, and is associated with a very high class image. When opened in late 1990, Hong Kong people were stunned at the price tags with too many zeros, and the gorgeous interior of the store. "Hong Kong Seibu was a sensation. But we were then called the best department store for just looking," jokingly recalled Ishikawa Masashi, managing director of Seibu. An intimidating Seibu, as expected, made a terrible start, under performing the planned sales target by as much as ¥3 billion, and a management overhaul became unavoidable. Ishikawa thoroughly checked everything, trying to find out what went wrong and why, and came up with his own diagnosis: extremely high prices, low store-awareness among target consumers, and boutique-like conceptual merchandising that made it difficult for shoppers to locate what they were looking for.

Ishiwawa lost no time in addressing these problems, and renewed almost everything from merchandising to store design. Prices were substantially lowered, while image building TV commercials were aired in the golden time slot every evening. Before long, sales began picking up, and Seibu was at last put back on the right track for a strong comeback. Seibu primarily cashes in on selling to corporate executives and professional people like attorneys and CPAs as well as their family members. But in recent months, its core customer base has expanded to the princelings of wealthy parents and well-heeled seniors including multi-millionaires. Also, gifts constitute a high percentage of sales, mirroring the high class image carried by Seibu.

On the Kowloon side, Isetan and Tokyu are located. Isetan seems to be affected by Causeway Bay's big push led by Jumbo Sogo and a 20% drop in sales produced by tourists. They are now shifting back their marketing emphasis to ladies' casuals from suits and dresses, while developing original brands with Hong Kong designers and mainland Chinese manufacturers. Despite difficulties, Managing Director Nakayama Taketoshi expressed an optimistic view on the future prospect of the department store business in Hong Kong. "Hong Kong people are traditionally addicted to eating, but it appears they are now paying more attention to what they wear. Some of them are really fashion-conscious." With a number of redevelopment projects underway in the district, it is undeniable that Isetan has big potential.

Tokyu is reviewing an expansion plan in the New World Shopping Center. Yamaguchi Kazuo, managing director, is confident, saying "We have plenty of fans and their support is so strong that some come a long way to shop here." Judging from its balanced management and close relationship with customers, Tokyu is expected to fare well.

All in all, Hong Kong's Japanese department stores are doing fine, but not without problems. Rent here is quite high and with an annual inflation rate hovering somewhere around 10% labor cost is also rising, occupying 8% to 10% of total revenue, almost the same level as in Japan. Ironically, an extremely high turnover ratio helps check much heavier labor cost pressure. Comparing fixed costs composed of rent and wages, Hong Kong pays more (19% to 23% of sales revenue) than Japan (14% to 16%). Nevertheless, Japanese department stores in Hong Kong are all making money because sales are growing, and gross profit is higher.

Department stores in Japan spend much on advertising, delivery and packing. The lower profit margin for Japan-based department stores is attributable to its dependency on the risk-free consignment system that allows returning unsold goods, loaned sales staff from wholesalers or agents, etc. In this respect, their Hong Kong operations are more independent and proactive in taking calculated risks to secure sufficient profitability.

Taking risks, however, is easier said than done. The current system employed by Japan-based department stores cannot be altered over night, but it is time that they set out in a more challenging direction as seen here in Hong Kong. It is perhaps their turn to learn from Hong Kong. JJTI

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