# Cost-cutting Measures Fall Short

## A look back to fiscal 1993

Partly due to the rapid appreciation of the yen at the beginning of the year, corporate earnings are continuing to decline and job conditions are worsening with disposable income remaining almost flat in fiscal 1993. Private consumption continued to decline that year partly due to a deterioration in household finances after the collapse of the economic bubble of the late 1980s.

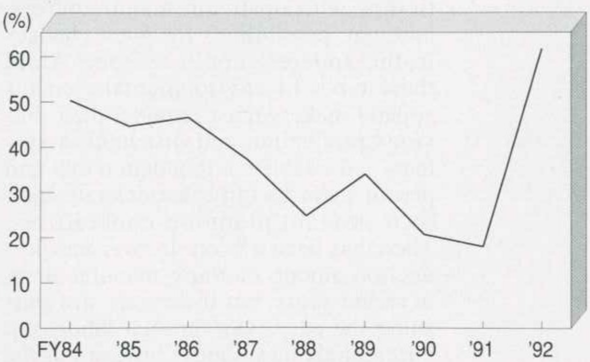
Department store sales sharply declined for all products, especially in clothing and household goods, largely due to consumer avoidance of expensive goods, corporate cost cuts, and aggressive operations of discount-type suburban specialty stores. Many department stores are now suffering from a higher break-even point due to increased fixed costs following aggressive store investments after the late 1980s.

Although various countermeasures have been taken, including raising delivery fees, shortening opening hours and other cost-cutting measures, lowering discount rates on individual store shopping cards and developing more efficient purchasing systems, these fall short of covering a steep decline in sales, resulting in another sharp drop in profits.


Consumers have become steadily more discerning—low prices determine shops' survival at Ameyokocho.

Supermarket sales have also been weaker in all areas with a particularly sharp drop in clothing and household goods. The number of stores which posted a year-on-year sales decline (existing store bases) appears to be increasing (see chart); total sales, which include newly opened stores, increased from a year ago. Recently, the number of customers and items purchased is growing to some extent, but lower average prices of goods are pressuring per-customer sales, preventing overall sales from rising. The reasons seem to be lower prices on imported goods due to deregulation and a stronger yen, and strategic price-cutting. Also supermarkets are developing techniques to drive down the cost of goods through the introduction of information systems such as point-of-sales and in-house brands.

**Year-on-Year Percentage of Shops Which Marked Sales Declines for 5 Major Supermarkets**




**Source:** Annual reports of five companies
**Note:** Five major supermarkets: Daiei, Ito-Yokado, Seiyu, Jusco, Nichii

## Outlook for fiscal 1994

We expect manufacturer inventory adjustments to continue, with no substantial recovery in fiscal 1994 corporate earnings. Disposable income growth is likely to worsen further. With no improvement in consumer confidence, private consumption is unlikely to begin a full recovery. Although sales of some consumer durables are expected to pick up, helped by replacement demand for home electronics, it is doubtful how much this can push up overall consumer spending given the aforementioned growing trend toward lower unit prices.

Department store sales had been expected to experience weakness as a reaction to the bubble period, and it is considered that this phase will end. But consumers are likely to stay away from department stores, given their stronger price awareness. Thus we expect department store sales to stay flat. Also, it will take yet more time to improve their low profitability, and overall earnings in the industry are still unlikely to recover.

Supermarket sales are expected to increase from a year ago, due to positive business operations through new store openings and floor-space expansion that reflects relaxation in the Large-Retail Store Law, although sales in existing stores should stay flat. For earnings, however, conditions are still severe with lower gross margins due to intensified competition and heavy investment burdens due to new store openings. Currently, major supermarkets are showing a polarized move into both high-end and discount goods. Gaps in strategies and earning power among major supermarkets are likely to reveal themselves more in the midst of intense competition.

(Uechi Hidenori, senior economist)