

Time of Decision

The Japanese distribution industry is at a crossroads, and the world is watching closely to see which way it will turn.

Japan's distribution structure was one of the most hotly contended issues in the Structural Impediments Initiative (SII) talks with the United States. In the SII talks, which produced a final report in June 1990, the United States singled out the Large-scale Retail Store Law as a symbol of structural impediments to the liberalization of the Japanese market.

In response, the Japanese government promised to introduce a Diet bill for revising the law to substantially ease the restrictions on the opening of large retail stores. The proposed revision includes the exclusion of specific areas from the application of the law. Moreover, in May 1990 the Ministry of International Trade and Industry issued a directive to ensure that the law is implemented.

These moves are frequently interpreted as Japanese responses to "external pressure," as American demands are often called. It is far less frequently noted, yet no less true, that several kinds of "internal pressure" have also built within Japan itself.

The increasing diversification and sophistication of consumer needs, for instance, is creating strong domestic pressure for change. A desire to enjoy a lifestyle of one's choice is increasingly a key motive behind the purchase of goods. The growing weight of information and

electronics in business is having a profound impact on the distribution industry. In particular, the point-of-sale (POS) system allows retailers to grasp consumer purchasing trends almost instantly in the form of quantitative data. Consumer needs are therefore increasingly known at the "upstream" of distributors, passing from retail orders to wholesalers to manufacturers. The production and distribution systems may be adjusted, sometimes day-by-day or hour-by-hour, in response to changing consumer preferences.

The rapid increase in private car ownership, enabling consumers to make shopping trips over ever-greater distances, has been another factor encouraging change. People flock to areas with a high concentration of shops, and areas with only a few shops are looking increasingly desolate. Even small shopkeepers are now beginning to realize that a shopping center is an essential core for a prosperous town.

The distribution industry is now poised to play a role as an "information transmitting base" for consumers as well as wholesalers and producers. The traditional pattern of competition, in which large stores are pitted against small ones, is also now giving way to regional contests among distributors for a larger slice of the pie, namely consumers. There is now a recognition that the lengthy procedures needed to open a large store—a process designed to accommodate local shop-



Reflecting changing lifestyles of Japanese consumers, this newly opened shopping mall features a movie theater and a gymnasium.

Photo: The Daiei, Inc.

keepers and thus indirectly inhibit large stores like superstores—are out of step with the times, making revision of the Large-scale Retail Store Law inevitable.

Already, the plan to ease restrictions has prompted retailers, who are also presently buoyed by continued expansion of consumer spending, to open new stores and to expand sales floor area at existing stores. However, the Gulf crisis is likely to affect the industry one way or another.

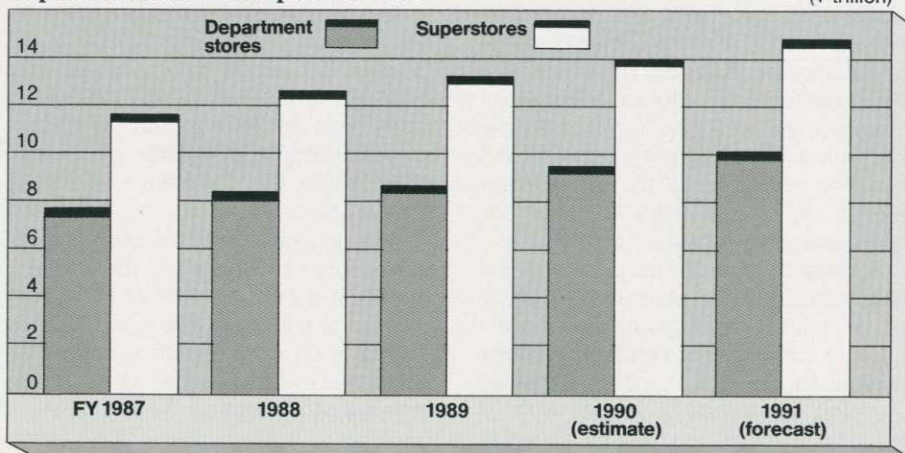
In fiscal 1991, it is likely that the general business outlook will dim somewhat. Due in part to the Gulf crisis, rising costs of raw fuel and transportation will apply downward pressure on corporate earnings. What is more, annual wages, including bonuses, are likely to increase at a lower rate in fiscal 1991 than in fiscal 1990. Since real income gains are the main support for consumer spending, the growth rate of consumer spending will likely drop in the second half of fiscal 1991.

It is often noted that the cost of doing business in the distribution industry is relatively high. The Gulf crisis is likely to cause ever further cost increases, including higher delivery costs. Yet distributors cannot afford to slacken their efforts to maintain a competitive edge. The plans to open new stores and to expand sales floor area will therefore, in all likelihood, proceed without delay.

One thing is certain: the coming year will be a time of decision—even a period of ordeal—for the Japanese distribution industry.

(Jun'ichi Mimura, economist)

Department Store and Superstore Sales



Sources: Japan Department Stores Association; Japan Chain Stores Association