

Gloom for Retailers

There are major changes under way in Japanese personal consumption. The brisk sales of luxury goods sparked and sustained by the boom in land and stock prices are fading, and the time is past when consumers just could not get enough of art objects by famous artists at ¥10 million or more apiece, expensive clothes by famous foreign designers or top-price jewelry.

It is in this climate that the Large-scale Retail Store Law regulations are being eased in earnest. With the Large-scale Retail Store Law having been amended last year, the new regulations will go into force in 1992 to make it possible for a retailer to open a large-scale outlet with a one-year interval between application and opening. Given that there were cases of retailers finding their applications held up for up to 10 years in the face of opposition by local retailers and other complications, this marks a considerable improvement.

Conversely the easing of the Large-scale Retail Store Law is bound to make things more difficult for local retailers. Responding to their concerns, the administration is providing a number of incentives and other help for such retailers, including setting up major retail centers that also include public offices and civic centers, programs for revitalizing commercial districts, and new retail buildings

so that smaller retailers can prosper alongside their larger competitors.

At the same time, the major retailers are also having to change their strategies in the face of this relaxation of the law. Department stores, for example, are looking at JR station sites as promising locations, with Isetan planning to locate in the new Kyoto Station and Matsuzakaya in the new Nagoya Station when they are rebuilt. Other major retailers are responding by expanding their floor space. In addition, retailers are moving quickly to locate in new residential developments and there is fierce competition in store development.

Likewise, superstores are zeroing in on plans to redevelop abandoned industrial sites and moving quickly to open more outlets. At the same time, these new outlets are inevitably getting bigger as both superstores and department stores alike realize that they have to have more space so that all of their sales sections can stock a full line of products if they expect to be able to compete not only with each other but also with other retailers and specialty outlets.

In addition, there are also new retail business categories coming into existence. The 1991 tie-up between the Jusco superstore chain and the Keiyo everything-for-the-home "home improvement center" chain is an example. Japanese



Relaxation of the law on opening large stores is spurring the setting up of major retail centers.

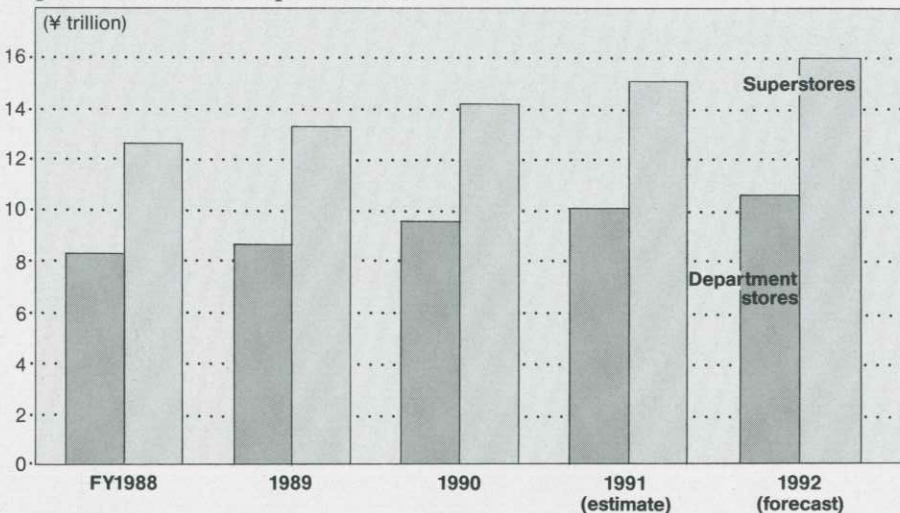
home improvement centers are much more than simple do-it-yourself centers, coming closer to Walmart and other such big U.S. discounters. Cutting costs by locating in suburban areas where they have the field pretty much to themselves, they stock a full range of everyday household items and are achieving good results as convenient places for the whole community to shop.

While it is expected that sales of everyday household items will continue firm in 1992, there is little hope for a recovery in the luxury class. As a result, everything-for-the-home stores and superstores will enjoy solid growth but department stores will find it hard to repeat their gains of the past few years. Nevertheless, the easing of the Large-scale Retail Store Law is forcing outlets in every business category to develop new outlet strategies. And with equity financing a problematical method of raising new capital, they will inevitably have to borrow more and to incur greater fixed operating costs. These higher costs will be especially painful for the department stores, since it is expected that their sales growth will continue slow this year.

In sum, conditions are grim and the retail outlook is bleak for 1992.

(Jun'ichi Mimura, economist)

Department Store and Superstore Sales



Source: Japan Department Stores Association; Japan Chain Stores Association