

Profits in Store

The changing economic environment characterized by the appreciation of the yen and falling oil prices since the second half of 1985 has had an uneven impact on the distribution industry.

In fiscal 1986, the retail industry including department stores and superstores posted strong profits despite slow sales growth. In contrast, general trading companies (*sogo shosha*), the leading lights of the wholesale industry, suffered declines in both sales and profits, due mainly to the strong yen and rapid changes in Japan's industrial structure.

In fiscal 1987, both department stores and superstores are expected to produce favorable business performances, thanks to the steady expansion of consumer spending. This trend should continue into fiscal 1988. Growth in the domestic economy will also allow *sogo shosha* to expand both sales and profits in the next fiscal year. However, disparities in the performances of various companies are likely to be greater in the year ahead, depending on the response of individual firms to the changing economic environment.

Department stores and superstores

Personal consumption will be firm in both fiscal 1987 and 1988, supported by income tax reductions. Income tax will be cut an aggregate ¥1,540 billion in fiscal 1987 and another ¥2,040 billion in fiscal 1988. The reductions should substantially boost disposable income, even taking into account the countervailing effect of the abolition of the tax-exempted savings system (*maruyū*), scheduled to be implemented in April 1988.

Other factors will also encourage personal spending, including continued consumer price stability, brisk demand for electrical appliances, furniture and



Photo: Matsuya Co.

Customers order traditional year-end gifts at a Tokyo department store in early December. Tax cuts and longer opening hours at department stores encouraged personal spending.

other consumer durables supported by stepped-up housing construction, and growth in leisure-related expenditures, most notably foreign travel.

As a result, department store and superstore sales are expected to grow strongly in both fiscal 1987 and 1988. Contributing to department store sales will be the expected recovery in regional economies as depressed industries recover from their slump. An extension of business hours aimed at stimulating domestic demand should also play a part. Superstore sales are also expected to be firm, although they could be affected by shifts in the market for perishable food, accounting for over 20% of total sales.

Earnings should also grow steadily thanks to cost reductions reflecting lower import and energy prices and savings on financial costs. Substantial cost reductions are expected especially at superstores, which are likely to improve their merchandise management through wider use of POS (point of sale) systems.

Sogo shosha

Fiscal 1986 was a major turning point for Japan's trading conglomerates as the rising yen and falling oil prices severely affected their traditional activities.

Foreign trade, their principal area of business, consists of exports of steel, autos, industrial plants and other products and equipment, and imports of resources such as crude oil, coal, iron ore and other metals. The remaining 40% of their business volume is in the domestic market.

With the strong yen here to stay and the domestic economy on the upswing, trading companies are trying to beef up their domestic operations, creating new branches and strengthening existing branch activities. They are also moving increasingly out of low-profit operations, including steel and machinery, in favor of downstream areas, and are reassigning personnel accordingly. In many cases, they are diversifying into entirely new fields of business.

Trading company revenues are forecast to rise by 5-10% in annual terms in both fiscal 1987 and 1988, with domestic operations driving growth. Factors contributing to this greater domestic activity include the recovery of domestic demand and the slowdown in the declining of foreign trade.

Growth in Department Store and Superstore Sales

	FY 1985	FY 1986	FY 1987 (estimate)
Department stores	3.9	4.4	5.2
Superstores	5.7 (2.5)	3.7 (1.7)	5.9 (3.3)

Note: Figures in parentheses for superstore columns are growth rates adjusted for the number of stores.
Source: Japan Department Stores Association; Japan Chain Stores Association

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