

# INDUSTRIAL SURVEY

Distribution

## Retail Boom, Wholesale Bust

Japan's economic environment has changed drastically, with the yen appreciating steeply against the U.S. dollar and crude oil prices falling sharply. These changes have had a major impact on the distribution industry since the second half of fiscal 1985. But the degree of change varies widely among department stores, supermarkets and other retailers, and wholesalers such as Japan's trading companies (*sogo shosha*).

### Department stores and supermarkets

In fiscal 1986, department store sales are expected to show smooth growth, buoyed by strong apparel sales. Supermarkets, in contrast, are forecasting very low growth rates due mainly to depressed food prices.

The fine sales performance of department stores is attributable to a number of reasons. First, while the growth of bonuses and nonstandard wages has slowed during the year because of the dull business climate, workers' basic wages increased by a relatively high 4.5%. Disposable income has registered mild growth thanks to a sharp slowdown in the consumer price index. Second, department stores' efforts to attract customers have paid off. For instance, they have sponsored imported goods fairs and have extended their business hours. Third, sales of clothes, their mainstay item, have surged thanks to the popularity of new brand name items.

Department stores also expect to chalk up a big increase in profits, helped along by increased sales and reduced electricity, lighting, heating and financial costs. Supermarket sales are faring less well as the prices of foodstuffs, underwear and shirts—accounting for 60% of total sales—remain sluggish. Sales of all supermarkets, including newly opened stores, are forecast to grow only 4% or so over fiscal 1985.



Location: a Marui Department Store

Extended business hours and the popularity of new brand name clothes are major reasons for the fine sales performance of department stores.

Supermarket profits, however, are expected to hit an all-time high. During the past year, they have gone all out to whittle down inventories. This increased managerial efficiency is boosting profitability. Reduced lighting, heating and financial costs are also contributing to their improved profit positions.

In fiscal 1987, the business climate is projected to enter a recovery cycle in the second half, but unemployment is expected to present problems throughout the year, especially in the materials industries. The year will thus see clouds of recession hanging over the distribution industry.

Sales growth for department stores and supermarkets will level off or even decline slightly compared with fiscal 1986. This is because the increase in basic wages in the spring will be at a record low 3%, while no sharp rise can be expected in bonuses or nonstandard wages. There are also signs that consumers' enthusiasm for purchasing clothing will flag. The ongoing campaign to return foreign exchange gains to consumers, as with other demand-stimulating measures, does not seem powerful enough to give an appreciable lift to consumption. Growth in department store sales is bound to slow, severely squeezing their profit margins.

Supermarkets, although operating in

the same managerial environment as department stores, are conversely expected to show further improvements in profitability as they make full use of new POS (point of sale) systems. They will continue on an increased-sales, increased-profit roll.

### Sogo shosha

Buffeted by the yen's appreciation and declining crude oil prices, sales of major trading companies in fiscal 1986 should decline 10–20% from the year-before level. Such trading houses, known as *sogo shosha*, handle 45% of Japan's exports and 77% of its imports. Steel products, cars, machinery and plants are their main export items, while crude oil, coal, iron ore and other mineral fuels and metals top the import list. Domestic transactions account for about 40% of their sales, involving especially the steel, shipbuilding, machinery and petrochemical industries.

In fiscal 1986, trading companies have suffered export setbacks due to the strong yen. The sluggishness in commodities markets stemming from low crude oil prices has also hit them hard. To cushion the impact of the dull domestic business climate, they are going all out to expand third-country trade and ventures in new fields of business. Nonetheless, the *sogo shosha* as a whole are likely to experience a marked decrease in both revenues and profits.

In fiscal 1987 sales and earnings of the big trading houses are expected to recover. They should post better business records than in the previous year as a healthier Japanese economy emerges from the adjustment and recovery process.

(Toshio Nakanishi, senior economist)

### Department Store and Supermarket Sales

(growth rate over previous year: %)

	FY 1984	FY 1985	FY 1986 (estimate)
Department stores	3.5	3.9	4.9
Supermarkets	4.8 (2.1)	5.7 (2.5)	4.3 (1.4)

Note: Figures in parentheses for supermarket columns are growth rates adjusted for the number of stores.

Source: Department stores: Japan Department Stores Association

Supermarkets: Japan Chain Stores Association