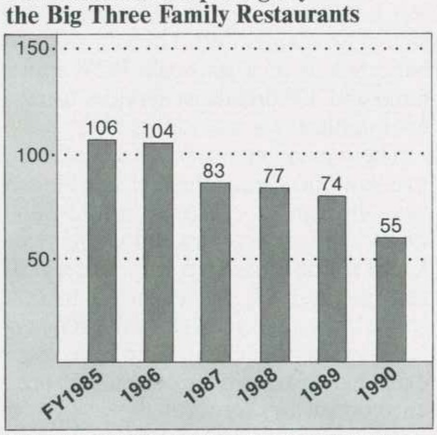
# The Big Squeeze

Family-restaurant and fast-food chains came to Japan in the late 1960s and early 1970s. At the time, a climate of burgeoning potential demand for these types of eateries because of the rising income levels, the shift to smaller families and other factors was joined by liberalization of the rules regarding restaurant businesses; the upshot being that a number of foreign-capital fast-food chains set up shop in Japan.

These fast-food outlets and the Japanese family restaurants that sprang up alongside them cultivated this emerging demand to carve out a hefty share of the total Japanese restaurant business, estimated at ¥24 trillion in fiscal 1990. Although there have not been any major conceptual changes since then in the way these chains are managed or how they target the market, the market has changed and is expected to change even more in the 1990s. The restaurants face a number of crucial issues in the years ahead.

For one, consumer needs and lifestyles have changed over the past two decades. Eating out has become an ordinary part of everyday life, but the flip side of that is that people have grown tired of the same old restaurants and are looking for more individuality and diversity. The traditional family restaurants and fast-food chains will have to evolve if they want to serve this market.

**New Restaurant Openings by the Big Three Family Restaurants**




Note: The big three family restaurants are Royal Host, Skylark and Denny's Japan.
Source: From data contained in the companies' annual securities filings.


Japanese consumers are looking for greater individuality and diversity when eating out.

At the same time, there is new competition from the convenience stores and other outlets. Seven-Eleven, Japan's largest convenience store chain, now sells more fast food than McDonald's does. There is a growing market for convenient food, and it is essential that the restaurants develop modalities and menus to serve this market. As indications that they are doing this, Royal launched a new chain of Sizzler steak houses in 1991 and McDonald's is starting to sell fried chicken at some of its outlets.

Rising rents are the second issue. Land prices and rents have gone up in the major urban areas, and it will be difficult for these restaurants to grow fast enough to offset these higher rents. Higher overheads mean sickly bottom lines, and it is likely that some outlets will have to close because they cannot pay the rent. At the same time, higher rents are also making it more difficult for the chains to open new outlets. In addition, there are fewer prime sites left now that everybody has already expanded into every nook and cranny. The days of accelerating growth are clearly over, and all of the companies are looking for new services to pay the rent more easily, management tricks to increase turnover both in terms of numbers of customers and in terms of sales per customer, and more customization of how each store is run.

Some family restaurants, for example, created different menus in 1991 with different pricing for urban and suburban locations. After long insisting that everything had to be run directly from the head office, Denny's Japan has gone into a franchise arrangement with Sumitomo Heavy Industries to take advantage of Sumitomo's idle sites and desire for diversification. Given the greater pressures on other industries wanting to diversify their operations and to use their idle assets more profitably and the greater pressures on restaurant chains to expand despite the higher costs of securing new sites, it would be surprising if such inter-industry ties did not become more common in the years ahead.

The labor shortage is the third issue. Shortages are particularly acute in the younger age groups—the late teens and early 20s—that have sustained the family-restaurant and fast-food chains' growth, and all of the restaurants are having to pay people more per hour. As a result, hourly wages for part-time workers have gone up 10% to 20% on a year-to-year basis for the last several years, severely eroding restaurant profitability.

None of these issues is amenable to short-term solutions, and it is clear that all of the companies in this industry will be scrambling for new formats, new marketing policies, and even new management arrangements this year and in the years to come.

(Makoto Okayama, senior economist)