Franchises Are Flourishing

As changes in Japan's industrial structure progress, services have come in for greater attention as an industry with growth potential as great as that of the information and communications industry. Services, excluding public utilities, can be roughly divided into those targeted on individuals and those catering to business establishments. In terms of production value, individual services have been growing at an average 6% annually for the past several years, and services for business establishments at about 9%. Both figures far outpace the growth rate for Japan's GNP.

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Many factors lie behind this remarkable expansion. Changes in lifestyles have not only increased total consumer demand for services but have meant the kinds of services required are more sophisticated and diverse. On the corporate level, there has been a similar trend inspired by pressure to rationalize in-house operations. Seen from the supply side, meanwhile, it is clear that the development of chain businesses using the franchise system has significantly contributed to the growth of the service industry as a whole.

A nationwide survey by the Japan Franchise Association found 596 chains in the country in 1986, up from 195 in 1975. The 596 chains broke down into 195 retail chains (33% of the total), 267 food service chains (45%) and 134 other service chains (22%). In all, they mustered 107,000 stores, of which 95,000 were affiliated and 12,000 directly owned. Moreover, the number of chain stores is growing steadily, registering average annual growth of 8.3% for the past three years.

The same survey found aggregate sales of all chain stores in 1986 to be ¥4.5 trillion, up an average 12.3% annually over the past three years. Compared with the 2.8% average annual growth for retail sales as a whole, chain stores are doing booming business.

The chain business industry is still in a growth phase. However, differences are beginning to appear according to the type of business. For example, the 1986 survey found an increase in both the number of stores and sales volume for chains of convenience stores, rental stores and Japanese-style *izakaya* pubs. Car accessory chains and *yakiniku* Korean barbecue restaurants, on the other hand, saw both the number of stores and sales decline. Moreover, seven chains of take-out boxed lunch stores stopped soliciting new franchise outlets altogether.

Chain businesses which have enjoyed high growth for the past decade are now shifting their sights from sheer expansion to improving and strengthening their business systems and corporate health. This can be seen in the rising proportion of directly controlled stores in some chains. The slowdown can be observed even in the food service sector, where high growth has contributed greatly to changing the dietary habits of the Japanese people.

A price-cutting war, popularly dubbed the "hamburger war," has been raging between big hamburger chains, while the stores in family restaurant chains are experiencing a serious slowdown in sales because of intensifying competition. The chain store business has entered an era of cutthroat rivalry, which in turn can be seen as a sign of growing maturity. The role of chain businesses in the service industry will remain an important one but each chain will have to improve its business and develop new services to cope with intensifying competition.

(Hisashi Nakamura, senior economist)

Sales Growth Rate of Major Food-service Chains

		1980	'81	'82	'83	'84	'85	'86	FY 1986 sales (¥ million)
Dining-out expenditures (nominal)		6.5	5.1	7.8	4.4	1.2	2.8	3.0	–
Family restaurants	Skylark	38.6	25.5	11.8	25.7	18.7	17.6	12.8	110,418
	Royal Host	36.0	22.3	14.1	11.9	15.7	10.9	7.9	78,802
Hamburger shops	McDonald's (Japan)	25.1	20.7	16.3	20.4	27.5	10.1	9.7	130,385
	Lotteria	29.8	19.8	8.0	7.9	7.9	8.4	6.0	56,400
Take-out boxed lunch shops	Hokka-hokka-tei Headquarters	–	192.0	86.0	40.7	11.3	0.0	1.3	67,920

Note: Except for final column, all figures represent annual percentage growth.
Source: *Nikkei Ryutsu Shimbun*, April 27, 1987