

Japan's Retail Industry: Charting a New Course

Interview with Yoshiaki Sakakura,
president of Seibu Department Store,
by Toshiyuki Yahagi

The Japanese distribution industry stands today at a major turning point. The major reason is the flattening out of the Japanese consumer's real disposable income. The disposable income decreased for two years in a row in 1980 and 1981 and rose slightly in 1982. But because overtime allowances and bonuses are not increasing as fast as in the past, the prospects are that personal consumption will remain stagnant for some time to come. For retailers and manufacturers the outlook is not good because the proportion of spending for goods of the average household has been on the decline. Service expenditure, including education expenses, public utility charges and leisure spending, which accounted for a little over 41% of total household spending in 1981, has been increasing sharply in 1982, reflecting the growing weight of the service industry in the Japanese economy. As a consequence, the growth of retail sales has been smaller than the growth of overall household expenditure.

The year-to-year growth of annual sales of all supermarkets and mass merchandisers affiliated with the Japan Chain Stores' Association, a national organization of mass sales companies, was only 1.6% in 1982, a sharp drop from the 4.6% growth in 1981. The member stores of this nationwide association control more than 12% of Japan's retail market, whose annual sales amount to ¥9 trillion. Even if household consumption spending increases by 1%, the growth of sales of chain stores and department stores will no longer reach the 1% level. This is partly attributable to the emergence and development of new types of specialty stores and food stores. In terms of the entire retail industry, however, this factor is an indication of the change taking place in the Japanese economy—the sharply increasing weight of the service industry.

In this bleak environment, the Seibu Group, the largest group of retail companies in Japan, is vigorously developing new forms of retail and service business.



Seibu Department Store president Yoshiaki Sakakura

The aggregate sales of the 108 companies making up the Seibu Group exceed the ¥2 trillion mark. Eight divisions—department stores, mass merchandising, real estate, aviation and transportation, restaurants, insurance, consumer credit, and chemicals—comprise the core of the group's business activities.

In the department store division, sales in 1982 of the Seibu Department Store in Ikebukuro, the flagship store of all the Seibu department stores, outstripped those of Mitsukoshi Ltd.'s main store in Nihombashi, which previously had enjoyed the largest single-store sales since the start of the department store business in Japan. This rise by the Seibu Department Store in Ikebukuro to No. 1 ranking has been attributed to the implementation of a strategy of "specialization" during the past five years. Yoshiaki Sakakura, president of the Seibu Department Store, is a veteran of department store management, having previously been a member of the board of directors of Mitsukoshi. President Sakakura's advice to foreign manufacturers is: "Establish a setup for developing new products" in order to promote

their exports to Japan.

An interview was made with President Sakakura on the subject of the Japanese retail industry today and how, in his opinion, foreign businesses can expand exports of merchandise to Japan.

Question: *How do you see the Japanese retail industry today?*

Sakakura: From 1900 through the 1950s, department stores took the lead in the retail industry. In 1960, chain stores made their debut in Japan and until the end of the 1970s grew at a spectacular pace, faster by far than the growth of department stores. They built up a powerful retail empire, exceeding that of the department stores. Since the start of the 1980s, however, the growth of both department stores and chain stores has slowed down although no new powerful retail form has emerged yet to threaten their position. The third change, which has been sweeping the Japanese retail industry since the start of the 1980s, is different in substance and nature from the past two changes. To be sure, the new form of specialty stores and convenience stores is in the process of development,

but they still lack the impact to change the whole retail market. The high economic growth era when all businesses were able to ride the crest of the boom and achieve high growth is definitely over. It is necessary for all enterprises to perceive the change currently taking place in the market and make efforts to stabilize their management.

Age of Specialized Merchandise, Information and Service

Q: *What kind of transition is reflected in consumers' life by the third change, which has become apparent with the start of the 1980s?*

Sakakura: The growth of sales of goods has reached its limit. It is now necessary to organize a marketing system that includes a setup to supply services and information. Consumers' leisure time has increased, consumers have greater interest in self-enlightenment and their perception of life has changed. They now attach greater importance to the preservation of their health, for example. These are natural outcomes of such social changes as the popularization of higher education, women's advance into social activities, and the aging of the population.

Individualization of consumption spending has changed the nature of the affluence which the Japanese people are enjoying. At least until the early 1970s, any imported merchandise, be it chocolate, whisky, fashion apparel or handbags, sold well simply because it was made in a foreign country. This has changed. During the past 15 to 20 years, the quality of Japanese products has improved remarkably, putting an end to the era when imported famous-brand merchandise was regarded by the Japanese as the symbol of an affluent life.

People have come to choose things that are of high quality. Japanese consumers today do not differentiate between foreign and Japanese goods. A recent survey revealed that the number of livelihood-related goods possessed per household is bigger in Japan than in the West. Japanese homes are overflowing with goods. In this age of material affluence, the key to successful marketing lies in the kind of information and services we can provide. Of course, the quality of merchandise is important. The Seibu Department Store operates a sporting goods store. In this store, clerks who know tennis are assigned to the tennis equipment counter. They give personal service in helping customers to select rackets or tennis shoes that best suit them. This sporting goods store operates a tennis school. It also has a racket repair shop. It is important for marketers today to offer such specialized merchandise,



Seibu's main department store in Ikebukuro, Tokyo.

information and service. The same applies to the marketing of imported goods, too.

'Democratization' of Foreign Goods Needed

Q: *The Seibu Department Store is one of the retailers that purchases the largest volume of imported goods. How does the change in Japanese consumers' perception of foreign goods affect their sales?*

Sakakura: For a long time, Japanese department stores imported famous-brand goods from Europe and America and used them as a means to distinguish themselves from other department stores in order to survive the competition. The Seibu Department Store has sales rights in Japan for 80 different European and American famous-brand merchandise, including Ralph Lauren, Yves Saint Laurent, and Hermes. The annual sales of these famous-brand foreign merchandise total ¥60 billion, which is almost 10% of our total turnover.

Recently, however, famous-brand foreign merchandise is not selling as well as in the past. Because many of the imported famous-brand items are targeted at the high-income bracket, their sales do not grow so much after they reach a certain level. Ralph Lauren items, whose sales are growing, are the exception because they have matched the Japanese people's preference for American traditional fashion. Unless imported items match the lifestyle and taste of the Japanese, they cannot expect continued growth.

The Seibu Group is now studying in real earnest how to increase the sales of the European and American brand merchandise it has imported and developed. Although this is my personal view, I would suggest stepping up the "democratiza-

tion" of foreign-brand goods in order to increase their sales in Japan. The first step that comes to my mind is the diversification of sales outlets. This would involve distribution of the foreign-brand goods that Seibu has exclusively imported to those department stores and specialty stores which are not directly competitive with us. It is also important to establish an international division of labor in order to develop merchandise suiting the Japanese market. The Seibu Department Store sells the popular Esprit-brand fashion apparel for the young. Esprit-brand goods were planned and designed by a San Francisco apparel maker and manufactured in Hong Kong. An effective strategy for foreign companies is to establish an international cooperative setup with Japanese companies and develop products suiting the Japanese market, and then export them to Japan, instead of simply exporting famous-brand merchandise originally developed for their own domestic markets.

Fundamental Differences

Q: *Do you mean that it will be difficult to succeed with the import of finished consumer goods?*

Sakakura: Yes, in most cases, I think so. Consumer goods are products of each country's lifestyle and tradition. They do not necessarily match the needs and tastes of the consumers of other countries. The Japanese market is no exception.

When I talked with an executive of a big department store in West Germany, I asked him, "Because of the progress made in the integration of economic activities in the European Community, the proportion of imported goods in your store's total sales must be high." He replied, "The

ratio of imported goods to total sales is 20%." The ratio of imported goods is that low even in West Germany where the government does not take any particular measures to restrict imports.

There are not a few cases in which goods selling very well in Europe and the United States do not sell at all in Japan. In most cases, this is because of the difference in lifestyle and customs. For example, there is the case of a Western saw maker who finds it impossible to export Western saws to Japan. Although Westerners push the saw away from them to cut wood, Japanese pull the saw towards them. To begin with, Japanese do not use the Western saw.

In the case of apparel, the reason why Western clothes do not sell well in Japan is self-evident. Because the physical proportions of the Japanese and those of Westerners differ so much, imported apparel does not sell in large quantities in Japan. Not only are the Japanese small and short, but their physique is different from that of Westerners. Because Japanese women have smaller chests, jackets tailored for Western women do not fit Japanese women around the chest area, even if their size is the same as that of jackets Japanese women usually wear.

There are countless such instances. Unless foreign makers take into account the fundamental difference of the Japanese market from theirs resulting from the Japanese people's lifestyle and customs, they cannot increase their exports. Several years ago, the Japanese and American governments cooperated in promoting the export of American goods to Japan. A big Japanese ship was loaded with American products and called at many ports in Japan. We dispatched our sales staff to help this American export promotion campaign. But the result was not encouraging. Only high-quality goods which Japanese consumers really liked sold well. In other words, beef sold like pancakes, but apparel and sundries did not sell at all.

Learning Lessons

Q: *The Seibu Group has tied up with numerous foreign retailing firms, such as Sears & Roebuck and Jewel of the U.S. and Habitat of Europe, in an attempt to acquire Western business know-how. It also has developed merchandise in cooperation with them. How do you assess these efforts on your part?*

Sakakura: We entered into a business tie-up with Sears 10 years ago in mail-order sales. We later extended our cooperative relations to the transfer of management know-how. We learned a lot from our tie-up with Sears, but the volume of merchandise exports must not be satisfactory to Sears. As I said before, merchandise handled by Sears, which boasts the

largest or the second largest market share in the U.S., does not exactly match the needs of the Japanese market. It isn't that the quality of Sears merchandise is inferior or that its prices are too high. Neither do we spare efforts to sell Sears merchandise. The difference in lifestyle and customs is the biggest cause for poor sales of Sears merchandise. Take the case of hand tools. Hand tools sold by Sears are too heavy for Japanese, who are relatively smaller than Americans. Japanese consumers complain that they tire easily when they use Sears tools. House paint is another example. Because the level of humidity is high in Japan, Sears paints do not produce the same shade of color in Japan as they do in the U.S. Neither do they last as long as in America. After painstakingly studying the points which were responsible for the poor sales of Sears merchandise, Seibu and Sears developed a number of successful products, representative of which is the refrigerator. The Sears refrigerator, which we developed with Sears in this manner, has become the best-selling item in the mass merchandise division, and boasts the biggest share of refrigerator sales.



It's a common practice for a Japanese department store to sell as the sole agent reputable foreign brand products to differentiate itself from its competitors.

Learning lessons from these experiences, we established a unique merchandising system through the tie-up with Habitat, the British housing-supply specialty store chain, to produce most of the merchandise planned by Habitat in Japan and Asia under the leadership of Seibu and to market the items in Japan. As much as 80% of the merchandise sold at stores jointly operated by Seibu and Habitat in Japan is manufactured in Japan and Asia.

Someone to Act as Pilot

Q: *Finally, will you give some advice to foreign companies from the standpoint of a retailer?*

Sakakura: Recently I went to Europe as a member of a merchandise import promotion mission. One of the purposes of this mission was to dig up good merchan-

dise from among the products manufactured by small and medium firms, and import and market them in Japan. When we went to the Netherlands, a Dutch dairy products manufacturer came to us and said that he wanted to export his products to Japan. He could not immediately understand the meaning of Europe's geographical distance from Japan. What export meant to Dutch manufacturers was to forward their products to Rotterdam from where they would be distributed via the Rhine to various parts of Europe. We told him that in order to export his goods to Japan, he would have to ship his products via the Atlantic and Indian Ocean in order to economize on freightage. Asked if his company was equipped with know-how to control the quality of its products and with packaging technology to withstand such a long journey, he appeared uncertain.

The short cut for European and American manufacturers to expand exports to Japan is to understand thoroughly the unique features of the Japanese market. America and European countries are closely associated historically and culturally. They are like close relatives. So, they

know each other's market very well. Japan has studied European markets thoroughly. Foreign companies do not know the Japanese market well enough.

Competition is keen in the Japanese distribution industry. However, Japanese distributors purchase products of a country only if they think that the products are of truly good quality and will sell well in Japan. In order to enter the Japanese market, which is different in nature from theirs, foreign manufacturers need someone to act as their pilot. It is most important for them to find good Japanese business partners and organize a marketing system in Japan with the cooperation of such partners. ●

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