

The Retail Industry And Japan's 2nd Distribution Revolution

By Sueaki Takaoka

Japan's retail industry is being tossed by the storm of a second distribution revolution. Up until the 1950s, the industry was characterized by a dual structure consisting of a handful of department stores and hundreds of thousands of small retail shops. In the 1960s it became necessary to modernize this old system in order to cope with an explosion in consumption. A new form of retail business was learned from Europe and the United States: the chain store, incorporating both supermarket and discount store know-how. Throughout the 1960s and 70s, chain stores grew at an astonishing pace. By the end of the 1970s their sales accounted for a full 12% of all retail sales in Japan. This was Japan's first distribution revolution.

Changing lifestyles

Now a second revolution is under way, for a host of reasons:

(1) Changing consumption patterns: As the Japanese economy has shifted from high to moderate growth, consumer preferences have also changed. Instead of worrying about quantity and price, consumers are seeking qualitative improvement, individuality and sophistication.

(2) Changing purchasing behavior among housewives: Today, more than 50% of Japanese housewives hold jobs outside the home. This has changed the traditional pattern of daily shopping for small purchases. Instead, convenience has become of prime importance.

(3) Technological innovation: Innovations in electronics and communications have triggered an information revolution that is also affecting the retail industry. Technological innovation has made it possible for the industry to develop new techniques and forms of business.

In the past, the focus of competition in the retail industry was the battle between large stores and small retail shops. But now the abovementioned factors have drastically changed the competitive picture. The new competitors are the existing shop retail businesses and new types of retailing centering on "no-store" or "shopless" merchandising. Until now the retail industry had revolved around the coordinates of popularization and sophistication, but in the future it will turn on convenience and contribution to the consumer's lifestyle.

New retail businesses

The standard-bearers of the second distribution revolution are the new forms of retail business which began to appear on the scene in the late 1970s.

The convenience store currently enjoys the highest growth of any retail business. Whereas department stores are recording annual sales growth of slightly under 2%, convenience store sales are expanding at

close to 10%. Convenience stores have already become the biggest outlet for some consumer goods. Located close to residential areas and staying open from early morning to late at night, the convenience store is truly a retail business predicated on shopping convenience.

Convenience is also the selling point of no-store retailing, such as door-to-door and mail-order sales, which is also posting notable growth. These businesses date far back, but in Japan, unlike in Europe and the United States, they had never developed into major retail channels. But in recent years, no-store merchandising has enjoyed much higher growth than store retailing.

The range of merchandise handled door-to-door is narrow—cosmetics, women's underwear, down quilts, tableware, vitamin pills, and a few other items. The important point, however, is what the industry calls system sales, which aim at the geometrical expansion of sales by using as salespersons housewives who have previously purchased the merchandise in



Robots at work at one of Japan's major retail stores

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question. Door-to-door sales have received a big boost from the labor pool of housewives eager for outside employment. Some companies are getting good results from the home-party-sales method. At first glance, such human wave tactics may appear highly inefficient. But actually the profit margins for most of the merchandise sold door-to-door are quite substantial. In the case of cosmetics, door-to-door sales have increased so dramatically that sales are declining at retail shops.

Mail-order businesses utilize a great variety of media to reach their customers. They use catalogs, direct-mail, newspapers, television and radio advertising, accept orders via telephone or mail, and deliver merchandise to places designated by the purchasers. Mail-order businesses deal in a great variety of merchandise, ranging from such expensive items as art and craft objects and imported goods to household articles, clothing and food-stuffs. The media employed depend on whether the mail-order house specializes in a single item or handles a general assortment of products.

It used to be said that mail-order had little potential in a crowded country like Japan, where small retail stores are found in every neighborhood. In recent years, however, the mail-order market has grown markedly. One reason is the convenience of making purchases from one's own living room. But there has also been an increase in the number of consumers who simply find it difficult to visit regular shops for reasons of health or time, such as aged people living alone or families operating small enterprises.

Moreover, direct-mail advertising makes it possible to reach segmented targets with precise merchandise information, helping consumers select the information they need from among the welter of facts bombarding them every day.

The key issue in the mail-order business is how to deliver merchandise information to consumers most efficiently. In this respect, mail-order in Japan is still far from satisfactory. Response rates are low, and media expenses very high. However, if customer information control can be enhanced through the use of high technology, as outlined below, the mail-order business should develop into an effective retailing method.

At present the most convenient form of shopping conceivable is interactive tele-shopping. Linked to home-banking, it will become even more convenient. Experiments in tele-shopping via Japan's CAPTAIN (character and pattern telephone access information network) System are now under way, and experiments with the more sophisticated INS (information network system) will commence shortly. Japan lags behind Europe

and the U.S. in applying new media, but full-scale utilization should start after these and other experiments are concluded.

Retailing and the information revolution

Information is essential to retailers, who need it to forecast consumer demand trends and sales in order to plan their inventories. It goes without saying that with today's profusion of new products, merchandise information is more important than ever. Information control is also vital to facilitate physical distribution after commercial transactions are concluded.

Advances in electronics technology and the revolution in telecommunications based on the use of optical fibers have triggered an information revolution. And this revolution is having a far-reaching impact on the retail business.

One aspect of the revolution is what is known as POS (point of sales). Stores need instant and accurate information on sales in order to control inventories and re-order merchandise efficiently. By applying electronics technology, POS translates the huge sales of the retail industry into information. Merchandise encoding has advanced so far that manufacturers, wholesalers and retailers can now implement information control on a common basis. Moreover, POS can be used to control claims and liabilities at each of the three levels.

Major department stores have installed store-wide POS systems while chain stores are introducing them by stages. An optical scanning system to read bar codes is also being tested in Japanese supermarkets. About half of all Japanese food manufacturers now use bar codes on their products, and before long most major supermarkets will likely adopt this technology.

Another aspect of the information revolution is the use of computers for customer control. Intense competition has made it extremely important for Japanese retailers to stabilize their clientele and ascertain their needs. For this, each retailer must communicate effectively and opportunely with customers and convey merchandise information to them to whet their purchasing appetite. For this purpose, customer information must be collected at the family level. A family's habits must be researched and its past purchasing record detailed as completely as possible. Armed with such data, the retailer can identify customers' needs more precisely.

Recent advances in electronics equipment and falling prices have made it possible for retailers to build data bases of such information. One example is the cus-



Direct sales, such as cosmetics at offices, are enjoying higher growth rates than in-store sales.

tomers cards used in installment purchases. Department stores began issuing customer cards 20 years ago, and now chain stores are getting on the bandwagon. At present, the cards are used primarily as a means of settling accounts. But some stores are compiling lists of customers for direct marketing. It is obvious that customer lists are also essential for the further development of the mail-order business.

Mechatronics in the retail business

As we have seen, no-store retailing is growing rapidly because of the convenience factor. But the other side of the coin is that existing shop retailers face greater competition. Department stores, chain stores and specialty shops must offer attractions that outweigh the convenience of the no-store retailers.

In order to make shops more exciting places to visit, there is a pressing need for knowledgeable service personnel who can convince consumers that the products will really enhance their lifestyles. At the same time, the store's physical atmosphere must be pleasant and inviting. But these involve added costs, whereas cost-saving is of the utmost importance to any retail operation.

The problem for retail shops, then, is how to slash costs without impairing service. Increasingly, it will be essential to turn to high technology, particularly mechatronics. Running a retail store involves a great variety of tasks, such as taking deliveries and storing merchandise, and taking out stock and displaying it on store shelves. All these tasks can now be done by machines. The task in which machines cannot replace humans is meeting and serving customers.

Some Japanese retail stores have already started experimenting with the robot-staffed, mechatronic store. In an increasingly competitive environment, the application of mechatronics technology in the back room is sure to increase dramatically as retailers seek to hold down costs.