

"Supply Products That Suit The Japanese Consumer," Advises Daiei Head

Interview with Isao Nakauchi,
president of Daiei Inc.,
by Masaaki Tatsumi



Isao Nakauchi, president of Daiei

The Japanese distribution industry achieved remarkable growth after World War II, but its structure is often criticized by Western countries as being "too complicated." Products go from factories to primary wholesalers and then to secondary wholesalers. Some products even pass through tertiary wholesalers before they reach retailers. Faced with such a labyrinthian system of distribution channels, overseas businessmen often feel that it is extremely difficult to sell their products in Japan.

Japanese industry was able to raise productivity greatly, but it has been backward in modernizing the distribution mechanism to facilitate the flow of merchandise. It is not as easy to reform this intricate distribution structure because it is deeply rooted in long years

of tradition. For one thing, the number of people who are working within the system is enormous.

In order to shed some light on the present state of the Japanese distribution industry and for some idea how it will develop in the future, an interview was made with Isao Nakauchi, 60, president of Daiei, Inc., Japan's biggest superstore chain. As the standard-bearer of the distribution revolution, he has made tremendous efforts to open up a new world in a sector hidebound in an older order.

In line with his business philosophy of selling fine-quality goods in mass quantities at low prices, he opened a small supermarket called "Housewives' Store Daiei" in front of Senbayashi Station in Osaka in 1957. The supermarket was capitalized at ¥4 million and had 13 employees. It was a tiny store, with only about 50 square meters of floor space. In 25 years, Nakauchi has built this small shop into a giant business whose annual sales total ¥1.2 trillion. Daiei today ranks 14th among the world's distribution chains.

Nakauchi's great strength was his unique advocacy of a "distribution revolution" and the know-how about mammoth retail businesses which he introduced from the United States. He was also extremely adept at sensing changes in consumption patterns and adapting his business to cope with them effectively.

Aiming to grow into a powerful conglomerate, Daiei has established more than 90 subsidiaries. Its target is to boost total Daiei Group sales to ¥4 trillion by the end of 1985.

Question: How do you regard the Western criticism, tied up with the trade friction issue, that the Japanese distribution system is too complicated?

Nakauchi: What the Western countries

are criticizing is not the retail business in which we are engaged but the distribution route through which merchandise reaches retailers. In other words, they are criticizing the functions of Japanese wholesalers and the *sogo shosha* (general trading firms). The total sales of Japanese wholesalers are more than double those of retailers. In Japan, commodities flow within a highly complicated distribution structure in which there are not only primary and secondary wholesalers but even tertiary wholesalers, depending on the kind of merchandise being handled. This is because there are as many as 1,600,000 small retail stores in the country, many of which are marginal, subsistence-level shops, and this even though Japan's population, at 110 million, is only half that of the United States. I should say that the problem is created by having to distribute to so many small retail outlets.

Because retailers were weak financially, they traditionally had to depend on the wholesalers for merchandising and credit financing. Herein lies the reason why wholesalers grew so extensively in Japan. Because these wholesalers are so strongly entrenched in the distribution system and consequently have such a strong voice in opposition to change, there could be no real headway in modernizing the distribution structure.

However, now that modern retailers, such as superstores and department stores, have grown in financial strength and ability, the modernization of the distribution structure has taken a step forward. Barriers to the modernization of the retail business must be removed completely, and new possibilities for modernization nurtured.

As an advocate of the free trade system, Japan must open her market completely and try to eliminate foreign countries' misunderstandings about the Japanese distribution system.

Q: As the flag-bearer of the distribution revolution in Japan, you have con-

tributed greatly to the modernization of that distribution system. How do you yourself evaluate the part you have played?

Nakauchi: What I did was to introduce self-service stores in the most backward sector of the Japanese distribution business, and I sold a new product known as "Westernization" to the generation which had the greatest purchasing power. I always looked at things from the consumer's point of view, trying to make it possible for them to do one-stop shopping, by offering merchandise which retail shops and department stores traditionally had not handled.

For instance, years ago eels were eaten mostly on *doyo-no-hi* (the midsummer day in the lunar calendar traditionally considered the hottest day of the year). We cultured eels in Taiwan, imported them and prepared them to suit the tastes of the Japanese people. We turned eels into a year-round food. In contributing to consumer life, we constantly thought about the consumer and created new needs by popularizing products.

Q: *The large Japanese superstores seek to provide goods at the cheapest possible price and at the same time to stock a wide variety of goods. This is said to be something not found in superstores overseas. How do you see this?*

Nakauchi: The Japanese superstore business imported retailing know-how from the United States, but it grew on the basis of its own unique approaches. American superstores only handle foodstuffs. If we do the same in Japan, we would end up just a local chain. But by thinking about the consumers' convenience and turning the superstore into a place for one-stop shopping, we succeeded in building national chains. The composition of our merchandise at present is foodstuffs 40%, hard goods 30%, and soft goods 30%. This type of superstore is now starting to appear in the United States.

Regarding assortment of merchandise, Japanese consumer behavior is different from that of the American consumer. The Japanese are more particular about taste and flavor, so superstores have to pay more attention to small details, such as having better systems for freshness control. We also have to stock a large variety of merchandise because the consumers'

Daiei's distribution center in Atsugi, Kanagawa Prefecture.



needs are diversifying and becoming more complex.

Q: *You're now moving into convenience stores, discount stores and the department store. Why this diversification?*

Nakauchi: The consumers' needs are becoming more diverse, complex and sophisticated. The superstore form of business alone will not be enough to meet their changing needs. We need new forms of business which match a variety of lifestyles.

The superstore is in a position to sense changes in customer needs more quickly than any other business. And the superstores are also the fastest to respond to such change.

When more and more housewives work part-time outside the home or start playing sports, you need convenience stores and specialty goods stores. If you want to sell expertly cooked quality beef, you need to be affiliated with a proper steak house. In short, what we are aiming for is to become a business which in effect offers consumer a "lifestyle."

Q: *The Japanese distribution industry is very enthusiastic about the point-of-sales (POS) system. How do you think this will work out?*

Nakauchi: In Japan, costs are lower if you use the wholesale system. Therefore there isn't as great a need for the POS system as there is in the United States. However, in the case of superstores and department stores which develop their own private brand or store brand products, there will be a growing need for POS. This is because each day's sales figures immediately affect stocking and manufacturing.

In order to popularize POS, it is necessary for the Ministry of International Trade and Industry to accelerate source marking. In our company, we are experimenting with a POS system in 10 of our stores in the Kansai District (the region centering around Osaka). To do so, though, we have to develop our own UPC code. This takes money and time, so at present it is not economical for us.

Q: *You are very aggressive about handling imported products and have opened representative offices in other countries. What is your future policy in this field?*

Nakauchi: At present we have purchasing offices in 10 locations overseas, including South Korea, Hong Kong, London, New York and Beijing, and we are importing products from more than 30 countries. Our annual sales of foreign products come to about ¥80 billion. So, you can see we are playing a big part in



Daiei is regarded as the pioneer in modernizing Japan's distribution system. The full-scale introduction of computers is one expression of their business philosophy.

easing trade frictions. It is Daiei's founding principle to vigorously import attractive products from the best sources in the world in order to offer our customers good products at low cost.

The proportion of imported goods in our sales has been rising steadily. I might even say, that if it's an imported product, we have it.

Q: *What advice would you give a foreign company with plans to enter the Japanese market?*

Nakauchi: The foreign companies which have succeeded best in the Japanese consumer market so far are Nestle and Coca Cola. Nestle made skillful use of the traditional Japanese distribution structure of primary and secondary wholesalers. Coca Cola introduced the same route service it uses in America. People said it would be difficult to establish this system in Japan, but Coca Cola succeeded. These two examples show that whatever system you use, the possibility of success is always there. Instead of complaining that Japan's distribution structure is too complicated, foreign firms should emulate what the Japanese trading companies and manufacturers did in entering world markets. They must supply products which suit the Japanese consumer climate and they must work earnestly to inform the consumer of the distinctive qualities of their product.

I question the need for compelling foreign makers to indicate the country of origin on the label of their product in Japanese. After all, internationalization is progressing at great speed and I am sure that Japanese consumers will understand the English for, for instance, "Made in U.S.A." Japan should revise such unnecessary details in its regulations and set up a system which will not invite complaints from other countries. ●

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1. POS system

A point-of-sale (POS) system is one that permits control of information at the point of sale. Under the system, merchandise information contained in JAN codes (for food and sundries) or optical character recognition (OCR) letters (for clothing) is retrieved through cash registers equipped with OCR systems. Information thus collected is disposed of, processed and transmitted so that each division can make use of it according to its needs.

2. Source Marking

Source marking is to print—at the stage of either production or distribution—identification codes or symbols necessary for the POS system on the surface of products. Suitable for mass produced goods such as processed food and miscellaneous products, source marking eliminates the need for attaching price tags at the wholesale or retail stage.

3. UPC

Short for universal product codes, UPCs are common product symbols adopted widely in the United States and Canada. They are black and white bar codes consisting of 12 digits—five digits each for manufacturer and product codes, and one each for a number system character code and a check digit code.