

Focus on Customers

– Is Japan Really That Different? –

By Billie Cole

WHEN the news hit that Wal-Mart was entering the Japanese market in 2002¹, the headlines compared the company to the black ships which Commodore Matthew Perry brought into Yokosuka in 1853. These ships were the catalyst to a whole period of openness to the new world and ideas and, ultimately, growth and prosperity. At the same time, they posed an enormous challenge to the status quo and bodings of radical change for the established powers.

As one individual retailer, Wal-Mart does not have the mission of those early flotillas of ships dispatched by the West to open up the Japanese market. In fact, the strongly knit culture established by Sam Walton, the founder of Wal-Mart, says that the main aim of any new business is to serve customer needs. The main pillar of the way Wal-Mart has done this in the United States and 10 other countries over the last 13 years, is to focus on establishing a low-cost oper-

ating structure and delivering low prices on the goods people want everyday in order to pass on savings to the customer. Since 2002, intense Japanese media and market interest in the first Wal-Mart funded Seiyu supercenter, new private brands, a voluntary retirement program and powerful new IT systems, to count just a few topics, has apparently spurred aggressive new activities throughout the market “to combat the Wal-Mart threat.” While Wal-Mart and Seiyu are focused on improving the way Seiyu serves its own customers, if this also indirectly stimulates competition to create a better retail environment for local customers, then we are still working towards the main tenets of Wal-Mart culture.

As members of the second largest retail market in the world, much has been written about Japanese consumers and their needs and wants. It would be impossible for me to pretend to cover all this in one article. I would rather like to

address some of the common misconceptions about Japanese customers which Wal-Mart has encountered in this market in trying to establish a new type of retail.

Common Misconception 1

The first principle which every doubter has raised in the consideration of whether or not the Wal-Mart approach will work in this market is “lower prices equals lower quality” or “*yasu-karou, waru-karou.*” This is a colloquial Japanese phrase used to express the sentiment that “you get what you pay for” or, conversely, the more you pay, the better quality you must be getting. Many people use this phrase to demonstrate their belief that Japanese consumers are not particularly price-sensitive and often prefer to pay a higher price under the assumption that it will ensure them a better product. But this is also a rather simplified way of looking at the motivations of the whole complex Japanese market.

If all Japanese consumers implicitly bought into this, for example, then maybe nobody would have thought to establish a 100 yen shop, a dynamic new sector of the retail scene where the top five operators are currently showing sales of over ¥384 billion per year.

The supermarkets themselves do not seem to be entirely convinced. Japanese mailboxes are flooded with promotional circulars offering “special deals” on national and original brands at supermarkets and other retailers. In this sector, the competition is already fierce to demonstrate a strong price and bring customers through the door. The difference in Wal-Mart and Seiyu’s long-term strategy is that customers will no longer need a circular to visit a Seiyu store as it will always offer at the best prices. While there are no published figures on the total cost spent on circulars by supermarkets, it runs into billions of

Photo: The Seiyu, Ltd.



Oji Store opening, April 14, 2004

Notes : 1) In March 2002, Wal-Mart Stores Inc. announced the purchase of 6% of The Seiyu, Ltd. and a series of options to increase ownership up to 67% in 2007 through a financial subsidiary. They then embarked on a seven-month feasibility study in partnership with Seiyu and Sumitomo Corporation, one of Seiyu’s largest shareholders. The conclusion of the feasibility study was positive and Wal-Mart currently owns about 37% of Seiyu. Seiyu operates over 400 supermarkets throughout Japan.

yen. The cost of the circulars themselves, however, is only a part of the cost of structuring a business around this promotional approach. In order to cater for massive swings in business due to promotions, supermarkets also incur excess costs in logistics, people and even capacity in the stores themselves. All this additional cost in a promotional environment ultimately adds to the prices paid by customers at the check-out.

In markets where Wal-Mart has already established an “every day low price” approach, circulars still exist but they serve mainly to let customers know about new items and remind them of the wide assortment of merchandise available at low prices. Hence the frequency of circulars is also much lower than is current at Seiyu, monthly rather than two or three times weekly. While customers in the United States, Mexico and other retail markets also previously followed promotional circulars and special deals, once Wal-Mart established stores always offering a lower basket price and successfully communicated that message, customers grew to depend on this promise, not on the one-off specials offered elsewhere. Customers trust that Wal-Mart will be out there shopping for them – focusing on making sure the basket price is low every day. This customer recognition and trust has been a real driver of Wal-Mart’s growth.

While both Seiyu and Wal-Mart are primarily retailers of national brand merchandise, they are also strong innovators in “private brand” or original merchandise available only at their stores. This is a powerful way of delivering great value to customers, as well as a broad choice of merchandise, and its success in Japan also firmly rebuts the “you get what you pay for” misconception.

In 2003, Seiyu introduced a basic men’s white dress shirt under the Wal-Mart exclusive “Simply Basic” label at ¥892. It is true that some customers in the stores asked what we had been done to “cut corners” on the shirt and thereby lower the quality, as they were reluctant to believe Seiyu was able to offer such a



Photo: The Seiyu, Ltd.

The Wal-Mart brand ‘Simply Basic’ comes to Seiyu

low price without compromising on quality. By leveraging Wal-Mart’s global purchasing network, Seiyu was able to offer the shirt at the new price. Sales of this shirt are up about 30%.

Another groundbreaker was the jeans for ¥997 which were also secured through Wal-Mart’s global purchasing network and adjusted for Japanese size and quality. At first this price met with doubters even within the Seiyu chain. When we identified that new stores opened in April with the 997 yen jeans in an eye-catching location were selling 30-40 pairs per day, other Seiyu stores also moved quickly to highlight this value purchase to their customers.

Common Misconception 2

Another misconception we often hear in Japan is that “the days of the general merchandise store (GMS) are over.” The GMS is the traditional Japanese supermarket format offering food, household goods and apparel over several floors. Depending on the speaker, however, this can mean radically different things. For Seiyu’s CEO, Kiuchi Masao, it is a part of the train of thought behind the partner-

ship with Wal-Mart. Without a burning passion for fundamental change and the recognition of a need to serve Japanese customers better with consistently lower prices, Kiuchi would probably never have sought to team up with Wal-Mart. It is true that in recent years Seiyu and other GMS retailers have experienced considerable pressure in the apparel and household areas, and that is part of the reason why changes happening at Seiyu will benefit customers on every floor at every store. It would be difficult to match the passion of the Seiyu management team for this common goal.

Market research shows that an increasing proportion of customers are time-starved and are seeking more convenience in their shopping.² As women are increasingly taking a fulltime role in the workforce, for example, they are keen to cut down their time on shopping and focus on a better quality of life. This throws down the gauntlet to current supermarket retailers. How does the GMS offer a merchandise assortment which satisfies customer needs in a one-stop shopping environment – so people short on time with diverse needs do not need to go in and out of a range of

2) Recent research includes “New consumption styles and marketing strategies” Shiozaki Junichi and Kawazu Nori, Nomura Research Institute, 2004

stores on a daily or weekly basis? In the U.S. Wal-Mart supercenter format, Wal-Mart has successfully offered a full range of merchandise from food to daily household consumables to home entertainment to outdoor leisure – at prices which ensure customers can shop the store and be sure that they leave the store with the best possible basket price. By doing this, Wal-Mart is one of the leaders even in categories where specialists have been traditionally strong – like toys and home entertainment. Price is always going to be a prime driver of customer needs but Wal-Mart is also committed to serving all customer needs – this includes convenience in shopping, which can also mean always having the best range under one roof, having the new product releases, and focusing on the most convenient store layout and merchandise display.

Changes in the way goods line the shelves

How do retailers decide where items sit on the shelf? As the Seiyu and Wal-Mart teams put their heads together in summer 2003 for the first time to review the plans for merchandise display in the stores, it quickly became apparent that there were as many reasons for this as there are leaves on a tree. When they visited stores, the tree sprouted even more leaves. Buyers in the Seiyu head office had traditionally drawn up a plan for their individual category, and taken into account factors like product size, margin and profitability and information from suppliers. Stores then executed the plan with their own adjustments for factors like the size of their display shelves in the store or storage room on the shelf for high volume goods which need frequent restocking. Sometimes suppliers rearranged their products on the shelves in store. Then if there was a change in staffing on a particular section and the new person did not realize a particular item was out-of-stock and rearranged the shelves without it, it might not get ordered again until the store received the next season's review of shelf display plans.

The Wal-Mart team proposed a new concept – let's display the goods which customers are most likely to want in the most prominent easy-to-see place. In other words, arranging every shelf in a Seiyu store to make it easier for the customer to shop. This means relying more on market research and supplier information to identify what customers are most likely to want. Greater consistency in execution at store level will also be needed. As Seiyu has developed over 400 stores of all shapes and sizes to match many prime real estate locations around the country, this presents a complex challenge. For example, this would mean the most popular large four litre bottles of *shochu*, a Japanese traditional spirit currently enjoying a boom in popularity, take the best possible spot at customer eye-level. Stores would traditionally stock these bottles on the deep bottom shelf due to their size and the need to keep restocking the shelves but, in the new way of thinking, the needs of customers to be able to find the most popular product first would over-ride these rationale.

One of the first categories which piloted this new approach was shampoo, which landed in stores in October 2003, and sales have experienced double digit growth as a result.

Common Misconception 3

In preparing for countless media interviews with Seiyu and Wal-Mart executives, we often encounter the question “how can you be successful in the complex Japanese distributional environment, where other foreign retailers have not?”

The distribution system behind getting goods on the shelves is obviously a key factor in how a retailer serves customer needs best – with the goods they want when they want them, and at value prices. It is also true that Japan is served by a very diverse retail industry. For example, only ten percent of the food market is sold through large chains and the rest is sold by small-medium size businesses. As a result, there has been a

strong need for suppliers and wholesalers to play a major role in distributing goods to retailers – many of whom did not have the scale or know-how to manage large capacity in storage or distribution facilities.

If we go back to the black ships comparison, this is one area in particular where the market has anticipated radical change, but Seiyu and Wal-Mart have been focused on steady but gradual improvement. As the ultimate aim here is to save cost in the supply chain and pass the saving on to the customer, a slow and steady approach is proving more valuable than an attempt at radical overnight change. Seiyu and Wal-Mart recognize the need for wholesalers to continue to play a role in the business. Looking for ways to reduce unnecessary costs in the supply chain, both on the supplier's and the Seiyu side, requires close consultation and mutual understanding with each supplier. Just identifying the costs in the supply chain and separating them from the manufacturing costs, in order to look for efficiencies, can be a challenge.

In strengthening the focus on productivity in all of Seiyu's current distribution centers operated by third parties, by measuring it and monitoring it and seeking improvement, Seiyu has already seen improvements in productivity of up to 40%. Seiyu and Wal-Mart have also committed to combining their know-how in a new distribution center, designed and built exclusively for Seiyu in the greater Tokyo area, which will start operation in 2006. This center will also allow further leverage of the new IT systems currently being installed in all Seiyu stores to save costs in the supply chain.

Common Misconception 4

One of the more predictable but still astoundingly parochial questions raised about Wal-Mart's entry to the market is “but Japan is unique and different from all those other markets you serve, how will you make it work in Japan?” The person asking this question usually

Photo: The Seiyu, Ltd.



Seiyu's first pilot supercenter opened in April 2004

assumes that a foreign entrant to the Japanese market can have no hope of fully understanding its consumers and is likely to try and transplant unsuitable strategies from other markets, and will ultimately lose out.

There are only two simple answers to this question and, of course, until the Seiyu business improves significantly and starts to show a good profit, I do not expect everyone to be convinced. One is that Wal-Mart and Seiyu are certainly focused on a big challenge – offering the best value on goods everyday – and this focus is certainly unlikely to change wherever Wal-Mart goes. This is a fundamental of Wal-Mart's way of working around the world and are convinced that it will be the core of success in Japan too. This is the big idea set in stone, written in all the handbooks and implicit in everything we do, and ironically it is probably also the most common reason for retail commentators to think Japanese customers will not take to the new Seiyu. While it will take the next few years to establish this way of business, move away from the highs and lows of a promotional business and communicate it to our Japanese cus-

tomers in order to build customer trust will be part of the picture of success in serving our customers in the best possible way.

The other answer to the question, though, is that Wal-Mart will bring best practices from around the world, carefully assess them with Seiyu in the lead, and trial, pilot and adjust them in order to best serve Japanese customer needs. For example, the supercenter format which has been so successful for the U.S. business has been launched in a pilot Seiyu format at one store in suburban Japan – at Numazu in Shizuoka Prefecture in April 2004 – and we do not have any more plans to announce supercenter openings this year. While Wal-Mart can bring some great learnings to Seiyu in how to serve customers in a one-floor, big-box format including food, everyday needs, apparel and household goods, the first Numazu store was based on market research with Japanese customers, learnings from a joint Seiyu/Wal-Mart remodel at another older multilevel store, and the combination of all the know-how of the Seiyu and the Wal-Mart international development teams.

One of the things the leader of the Wal-Mart team in Japan, Jeff McAllister, is most passionate about is the belief that Wal-Mart can learn from Seiyu. For example, a team from Brazil, where Wal-Mart recently acquired a new retail chain, has already visited Japan to learn from the flawless implementation of the IT systems conversion in the stores. The delivery of freshness and quality in seafood, meat and fresh fruit and vegetables in Japan is also an exacting standard from which other Wal-Mart countries are keen to learn. The unyielding commitments of Wal-Mart to improve, to learn from all of its worldwide people and to make sure every initiative is measured by what benefit it delivers to the customer, are core to the company's culture and also pave the way for a bright future for Seiyu's customers in Japan. **JS**

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