

# Japanese Retailing

## —Movement to the Post-traditional Stage—

By John A. Dawson

Economic commentators frequently characterize Japanese distribution as being inefficient. But from the top of Sunshine-60 Building in Tokyo's Ikebukuro district the same observers can see the homes of many million Tokyo residents to whom the distribution system delivers, on a regular basis, a high standard of living. A paradox exists. Analysts argue that the distribution system is complicated and ineffective, yet it very obviously works quite well for the Japanese consumer, albeit at a cost. Why does this paradox exist? Have the analysts measured the wrong variables? Are Japanese consumers undiscerning and easily satisfied?

A possible answer to the paradox lies in two concepts. First, the distribution system in a country—and Japan is no exception—evolves in response to the society and culture of the country. Secondly, the distribution system in a country is not one system but is very many, each of which fulfills the needs of particular groups of consumers or of particular demands of consumers. In characterizing a country as having a single distribution system, this variety is lost in a barely meaningful generalized description.

Distribution systems in Japan are no more complex, nor more simple, than in other countries. In Japan, as in other countries, there are some seemingly simple systems but there are also some apparently complex ones. There is great variety in the form, function and processes of the Japanese distribution system—in a similar way to the great variety in Italy or Britain or the United States.

### Consumer change

Before considering the range and variety in distribution to the final consumer—and the changes in this distribution pattern—it is important to consider how Japanese culture and society create the patterns of demand of these final consumers. In common with many wealthy

countries, social patterns have changed rapidly in Japan in recent years. Key changes in society which have generated a response from distributive institutions are:

- greater affluence and higher disposable income of young people;
- more leisure time and more spending on leisure activities for many groups of consumers;
- an increase in actual and perceived personal mobility;
- an aging society;
- an increasing contrast between the big city lifestyle and small town and rural lifestyles;
- a search for more individualistic lifestyles and a fragmentation of attitudes to consumption.

These trends to modernity exist alongside some traditional social characteristics of Japanese consumers. The presence of traditional views also generates a response from retailers. Examples of this traditional side to Japanese life are:

- a high propensity to save;
- occupancy of a small living space;
- food choice which values freshness, and a design choice which values tradition;
- a high loyalty to products made in Japan;
- a social structure based on cooperation rather than conflict.

Some of the more recent changes in society appear to be contradictory to these more traditional values, but the size and variety of Japanese society allow new and old to coexist relatively harmoniously.

### Responses of retailing

The retailers' response to the variety of

consumer demand can be considered in respect of:

- the structure of the retail sector;
- the strategies of retailers;
- the operational characteristics of retailing.

Change in the structure of distribution has been rapid during the 1980s. Table 1 provides some key figures illustrating the extent of this change. Several trends are apparent in the restructuring of the sector, notably:

- the decrease in the number of shops and particularly those operated by small business;
- the growing importance of chain stores in both food and nonfood retailing;
- the increasing importance of both large stores and large companies; stores over 500 square meters increased in number by almost 4,000 between mid-1979 and mid-1987. By early 1988 there were over 16,000 such stores with a combined floor space (gross) of over 40 million square meters. This has taken place despite the presence of the Large Store Law which has placed restrictions on development. The likely revision of this law in the next few years may well allow an even faster expansion of these large stores and perhaps most importantly their wider diffusion outside the Tokyo and Osaka megalopolis.
- the continued high level of employment in the sector; the number of employees in 1985 was well above that of 1979 when there were more shops. This is partly accounted for by the expansion in the number of part-time workers, often women, particularly in the large stores and in shops of chain store companies.

Table 1 Retailing in Japan

	1974	1979	1982	1985
Total number of outlets (thousands)	1,548	1,674	1,721	1,629
Total number of employees (thousands)	5,303	5,960	6,369	6,329
Sales concentration of top 200 retailers (%)	—	19.1	19.7	20.7
Sales concentration of top 10 retailers (%)	—	6.7	6.5	6.8

Sources: Ministry of Commerce; *Nikkei Ryutsu Shimbum*



Table 2 Change in Sales by Type of Retailing

Type of retailing	Percentage change in sales (%) 1982-1987	Sales in 1987 (¥ billion)
Department stores	24.1	8,879
General merchandise retailers	25.9	11,611
Shopping centers	31.1	11,895
Specialist electrical goods shops	89.3	1,410
Consumer cooperatives	93.8	1,938
Door-to-door sales	43.7	2,270
Mail order	51.5	970

Table 2 summarizes change in some of the various sectors of retailing over the 1982-1987 period.

Broad patterns of structural response to consumer change in Japan are similar to those seen in the U.S. and Europe. They involve the exploitation of economies of scale (at company and shop levels), economies of replication (with chain store creation) and economies of scope (with targeted product mixes aimed at particular consumer segments).

Each country has unique cultural traditions which influence the detailed pattern of structural adjustment, but broad patterns are common.

If we look for similarities in strategic approaches in large retailers in Europe and Japan we see many:

- a more market-led approach using information technology particularly to develop strategic marketing information systems;
- corporate diversification from retailing into a range of other service sectors aimed at the final consumer and also the small business, with different divisions being operated within an overall holding company;
- multi-format retailing with several store names being used by a single company;
- more product development and design being carried out by retailers rather than by wholesalers and manufacturers;
- retailers developing their own distribution facilities, increased interest in international store operations through opening of stores in other countries or entering joint agreements to operate in another country.

Significant examples of all these approaches may be found in the Japanese retail sector. The widely stated view that retailers' strategy in Japan is fundamentally different from that in Europe and the U.S. is based on a superficial view of strategy. As with the changes in structure, there are many similarities in strategic management between Japanese retailers and their counterparts in the U.S. and Europe.

The sharp end of retailing is the interface between retailer and consumer.

Retailer operations have to reflect and respond to consumer demand, and so we might expect national or regional cultures to be important at the operational level.

Within the Japanese distribution systems, the retail operations work within the constraints of:

- very high space costs;
  - a poor road infrastructure;
  - the manufacturer's wish to have a direct influence on the sales floor;
- but with the advantages of:
- high density of consumers;
  - high company loyalty by employees, which reduces losses;
  - widespread use of public transport by consumers;
  - an expectation by consumers of a high level of service.

This combination of factors has encouraged the use of information technology to ensure the most profitable use of a high-cost space. Not only point-of-sale technology but also technology associated with store planning and shelf layout are involved. These factors have also encouraged retailers to locate at railway station complexes where not only new space has been created by building over and under railway lines but also high levels of customer flow and accessibility are obtained.

The casual European observer of Japanese retailing sees these small units in railway-associated complexes to which small deliveries are made on a frequent basis. The casual observer immediately comes to the conclusion that the system is inefficient. There are many operational responses to the various constraints and associated advantages within which retailers operate.

At the operational level, retailing is different in Japan, although even here there are some similar features, for example in

stock management systems. But difference does not necessarily mean inefficiency. The variety at the operational level in Japan in many cases serves very effectively, and profitably, the variety of consumer segments present among Japanese consumers.

### Challenges for the 1990s and beyond

The existence alongside each other of traditional and post-traditional retail systems in Japan provides a particular set of challenges for the future. The new "vision" of retailing and wholesaling being produced by the Ministry of International Trade and Industry is likely to provide the springboard for the creation of a post-traditional era in retailing. The acceptance of the key role of marketing in delivering the 1990s lifestyles and the discarding of unnecessary protectionism in retailing will create a climate for creative retailing by Japanese companies. As consumer demand becomes even more fragmented, so ever more variety will be required to be delivered by retailers.

The two essential challenges in the changes in structure, strategy and operations in Japanese retailing are: will enough investment capital be released to the retail sector to allow it to restructure fast enough to meet consumer demand; and will managerial practices, not only in retailing, be sufficiently flexible to allow the development of the systems of total supply chain management which will be essential to ensure efficient distribution?

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