

# Retail Revolution

By Sueaki Takaoka

It will soon be a quarter of a century since Japan's retailing industry first began to modernize seriously. This was in the early 1960s, and it coincided with the country's adoption of high-growth economic policies. At the time, Japan recognized the need to reform its distribution system and responded by revolutionizing the way it conducted its retail business. Retail chains proliferated.

These retail chains were based on American theory and experience, and their growth followed in the wake of the establishment and development of the mass-consumption society. Together with the department stores born in the 1920s which ushered in a golden age of modern retailing, the chains have become some of Japan's leading retailers.

During the past quarter-century, Japanese retailers have imported new retailing techniques and know-how from the United States and put them to use in a variety of retail ventures such as supermarkets, convenience stores and mail-order houses. The modernized sectors of Japan's retail industry are now some of the most advanced anywhere, thanks to their use of the world's newest distribution technology, such as physical distribution equipment employing mechatronics technology and sophisticated point-of-sales (POS) and other information systems.

## Family stores

Of course, that is not to say that Japan's retailing problems are over. According to preliminary statistics for 1988, there are 1.62 million retail outlets in Japan—98% of which are independently owned and operated. Some 870,000 of these retail outlets are one- or two-person operations, and most of their proprietors are using the same methods their fathers used before them.

This pre-modern retailing infrastructure has epitomized the underside of the Japanese economy's capitalist century—low productivity, low purchasing power



POS system in use at a large superstore

and underemployment. Along with farmers, these small businesspeople have always been overly protected in the name of maintaining political stability, and conservative governments have been reluctant to upset the applecart.

To make the transition from this inefficient quagmire to the streamlined system the 21st century will demand, Japan's retailers are looking for new frames of reference from which to launch major changes. There are two factors that will stimulate those changes. The first of these is the Japanese economy's high growth rate, which should lead to further maturation of consumer markets and further modernization of the retailing infrastructure. The large-scale retailers destined to lead the industry in the future will play a major role here as retailing completes the shift from proprietor-managers to corporations.

The second stimulus is the increasing international criticism of Japan's distribution system. As already explained, the more advanced sectors of Japan's distribution system are among the best in the world, and much of the international criticism that the system is a nontariff trade barrier is unwarranted. The fact remains, however, that Japan's retail industry retains a dual structure. Considering Japan's place in the international community, it would be better if the Japanese distribution system were less of a mystery to people overseas.

Every 10 years, the Ministry of International Trade and Industry (MITI) formulates a distribution policy plan that outlines the basic directions for distribution policy and offers advice and guidance to the distribution industry. MITI will soon release its distribution policy plan for the distribution industry in the 1990s. Although there is no way of knowing what the plan will say, my guess is that it will propose amendments to the law restricting the opening of large retail stores and will propose other legal and regulatory reforms for the distribution industry.

The Japanese economy urgently needs to reform or repeal outdated laws and institutions and give freer rein to private enterprise, and the distribution industry is no exception. Small business remains very much a political issue, however, and policies to unleash the retail giants have to include some provisions for sheltering the still-immature segments.

## Steady reforms

Although government-instigated reforms are proceeding at a slow-but-steady pace, the distribution industry itself is undergoing rapid change. There are two reasons for this.

The first is that the dollar's collapse—an exchange rate adjustment that was necessitated by Japan's economic development—has apparently locked in the shift to a domestic-demand-led economy. It is



the individual consumer who has the greatest influence on domestic demand. Although individual consumption slackened with the two oil crises of the 1970s, it has since strongly recovered, along with increased confidence in the Japanese economy, vastly increased privately held financial assets, and the profits resulting from asset appreciation. All of these factors have combined to help consumer demand make a rapid recovery—a recovery that shows no signs of abating over the medium term.

The resultant maturation of consumption will most likely engender more individualistic and quality-oriented consumer behavior, which will doubtless have an effect on how things are done in the distribution industry. In other words, retailers who made pleasing their suppliers the priority will have no choice but to start catering to the market needs of their consumers, and information access will be a crucial part of this.

At the same time, the rapid domestic-demand-led growth in Japan is causing an increase in consumer imports, with an especially sharp increase in manufactures from East Asia. As a result, East Asian countries have also been able to achieve rapid economic growth, and this mutually synergistic effect is spurring growth throughout the region. This phenomenon suggests the emergence of a massive retailing network centered in Japan and spreading throughout East Asia, a network that will encourage retail growth and a retail industry that is essentially borderless in nature. In response to Japanese efforts, the countries of East Asia are rapidly reducing or abolishing their



Small traditional retailers in a Tokyo street

trade and foreign exchange barriers, which in principle means a greater commitment to competition and free trade.

This trend toward retail networking throughout Asia is not limited to goods. Except for certain standout sectors, East Asian retailing as a whole has remained relatively backward, but I am looking for a strong push to modernize supported by broad-based economic growth and technology transfer from Japan.

### Borderless network

Strong and effective networks will thus be built with the retailing industries of each country cooperating both in the exchange of goods and the exchange of management and operational techniques. There is no reason why this borderless retail network should not extend past East Asia to include North America and Europe as well, although it will probably be limited to the leaders for the time being.

One more factor that will facilitate change in the retail industry is the information revolution. Modern retail management has clearly developed on the basis of market principles. No technical system for ensuring that value is added—the backbone of manufacturing—has been clearly formulated in the retailing industry, however, and this has made modernization difficult. The closest equivalent for retailers would be information systems to minimize sales randomness.

The information revolution—centering

as it does on technological innovations in electronics and communications—has elevated the concept of minimizing randomness in distribution from storybook prophecy to real-life theory. For an industry built on massive transaction volume, the information revolution has made it possible for the first time to produce databases on transactions and to link management decisions to information on a real-time basis. Thus the information revolution is a fundamental element in the retail industry's infrastructure, and it serves the same function as an engineering system in manufacturing.

Some of the more significant weapons available to retailers as a result of the information revolution include systems to collect and process data emanating from sales outlets, such as the POS; databases with demographic and lifestyle statistics on actual and potential customers; and VANs (value-added networks) linking sales offices and suppliers. With communications satellites, the information revolution in retailing will render international boundaries less important and make borderless retail networks more effective than ever before. There can be no doubt that Japan's retail industry is in for some revolutionary changes, both domestically and internationally.



Clothes imported from other Asian countries on sale at a Japanese store

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