

# Small Retailers Disappearing

By Kenji Mizuguchi

**H**aving spent 30 years building one of the strongest chains of retail outlets in Japan, Matsushita Electric Industrial dismantled its National Shop Association this May. With 27,000 outlets in 770 market areas, National Shop Association was the largest of Japan's manufacturer-affiliated retail outlets. It enabled Matsushita to reach consumers the length and breadth of Japan, and was widely thought to be a major factor in Matsushita's market clout.

In building the chain, Matsushita got retailers to concentrate on its products by offering rebates on a sliding scale geared to how much of the shop's total stock was from Matsushita—the higher the percentage of Matsushita appliances on the shelves, the greater the rebate.

It was a successful system, but Matsushita is dismantling it. Why? Four main reasons come to mind:

(1) To blunt criticism that the manufacturer-affiliated retail outlets are an exclusionary and unfair business practice, criticism that was apparent in the Structural Impediments Initiative's section on *keiretsu* business practices.

(2) To shift from a complex and ultimately expensive system of rebates to a simpler and cheaper system.

(3) To rid itself of outlets that were basically living off the sliding rebates and were not making that much of an effort to actually sell the appliances.

(4) To make it possible to concentrate sales promotion support on those outlets that are making a major effort to sell Matsushita appliances.

Because some of the outlets were in buildings that the proprietors owned, and their owners were thus able to make a respectable living with a 20% rebate on 1% of their inventories plus rental income from the rest of the building, it is quite understandable that they might have been a little lackadaisical about selling the appliances they were supposedly in business to sell. At the same time, over

half of Matsushita's sales now come from non-affiliated outlets—primarily giant appliance stores, home furnishing centers, discounters, and the like.

After disbanding the National Shop Association, Matsushita plans to overhaul its trade practices and to create a new relationship with its retailers. It is jettisoning the non-performing stores and building closer ties to the ones that really want to sell Matsushita products. As a result, there will probably be a lot of smaller appliance stores that will go out of business in the shake-up.

Nor is this shake-up restricted to electrical goods. Indeed, it cuts across the entire spectrum of Japanese retailing—cosmetics, stationery, confections, baked goods, pharmaceuticals, clothing, tires, and all the rest. In all of these industries, markets were created and long dominated by maker-affiliated retail chains. If you walk down the average Japanese shopping street, you will see lots and lots of stores that include the maker's name as part of the store's name. Often you will be hard-pressed to find the store's name, hidden as it is among the signs for specific products and makers. There is the Kokuyo stationery shop, the Bridgestone tire shop, and the Shiseido cosmetics shop.

## 1991 census of commerce

Many of these manufacturer-affiliated stores are just coasting. They know they are handling popular products that are heavily advertised, so they think they do not have to work to sell them. Although the makers have instituted program after program to reorganize their retail chains, Matsushita's is perhaps the most ambitious to date and is bound to have ramifications throughout Japanese retailing. Spurred by Matsushita's example, there are bound to be a lot of stores in all product categories that decide it is easier to just shut their doors.

On April 10, the Ministry of Interna-

tional Trade and Industry released the preliminary results of its 1991 census of commerce. Done every third year, these studies give a good picture of Japanese industrial trends. Some of the information they contain is particularly relevant to retailing.

(1) There is a continuing decline in the number of retail outlets. After peaking out in 1982, their number has been lower and lower in every census since then. This time, the decline was 1.8%.

(2) There was a particularly sharp decline in the number of very small mom-and-pop stores.

(3) The decline was nationwide, occurring in almost every demographic region—big cities, regional centers and even outlying towns.

(4) Outlets dealing primarily in food-stuffs or in household goods were particularly hard hit, the numbers down 11.1% for food stores and 7.3% for household goods stores.

(5) Bucking these trends, convenience stores mushroomed, up 24.4% to a total of 43,000 outlets.

(6) The number of supermarkets is also continuing to increase, albeit not as dramatically as convenience stores.

What does this all mean? Very simply, it means that there are fewer stores that are definable by what they sell and more that are definable by how they sell it. There are fewer little stores where you ask the man behind the counter for what you want and more big stores where you go find it yourself from among the very broad selection available on the shelves.

Most are general merchandise stores, superstores, supermarkets, convenience stores and the like—the very stores that have done so much to destroy the specialty shops' market dominance. One of the other defining characteristics of these stores is that they are staffed almost entirely by part-timers. At the supermarket, it is the working housewives who keep things going; and at the convenience stores it is students. This is very unlike

the mom-and-pop store where the proprietor is there all the time and knows the merchandise, but it is this new pattern that is winning out.

In addition to these trends in retailing (specifically the decline in the total number of retail outlets), the commercial census also shows a very interesting increase in the number of wholesalers. Here there has been a 9.1% increase in just the last three years.

Why the increase in the number of wholesalers even as the number of retailers is declining? As Tadashi Hirota (president of Ryoshoku, the archetypical national network of foodstuff wholesalers) explains it, "This is a transitional period where we have both the traditional medium-scale wholesalers and the modern large-scale wholesalers existing side by side. Looking ahead, I would expect an industry shake-out as the big wholesalers either absorb the smaller wholesalers or drive them out of business."

Here too, we have the same phenomenon of product-specialty stores (wholesal-

ers) giving way to the newer total-service stores (wholesalers) handling a wide range of products.

### Small shopowner's trials

There are many reasons being advanced for the decline of the small retail outlet, but I would like here to focus more on what this trend means for the small shopowner. It is, in short, a time of trial and testing for all small shopowners.

#### (1) Consumer pressures

Consumers are more demanding every year. This is especially true of those younger consumers who have access to a wide range of consumer information and who know exactly what they want and why they want it. It is impossible for the small shopowner to prosper if he knows less than his customers do—and knowing more than they do is increasingly difficult.

#### (2) Manufacturer pressures

Makers are also becoming more demanding every year. As seen in the

Matsushita example, makers that worked hard to bring more stores under their wings during the earlier rapid-growth years are now finding that sheer number of affiliated stores does not give them market share or profits and are thus engaged in a great winnowing process. They are dropping the non-performing stores and keeping just the ones that hustle and do a good selling job.

#### (3) Competition pressures

Every market watershed area has more than one store handling basically the same products. If one of them remodels the store to make it more attractive, all the rest have to follow suit or risk losing customers. Younger consumers like to shop in attractive stores with knowledgeable clerks, and they do not have the store loyalty that characterized the close-knit communities of olden times.

#### (4) Employee pressures

Employees are now able to demand better conditions and better pay. They are part-time workers who can work just as well at any retail outlet. They do not have to be any more store-loyal than young consumers do. In contrast, a proprietor can only be a proprietor at his own store. Japanese labor markets are still very tight, and it is still very hard to hire and keep good workers. So the employees have the upper hand in this power relationship. Even in the family, children no longer unquestioningly accept what mom and pop want for them. If they do not think the family business is well run and has a promising future, they will chuck it all for something else somewhere else.

Little wonder there is such attrition in Japanese retail. This is partly because so many retail outlets cannot keep up with the changes taking place, but it is also because customers, manufacturers, other stores and employees are all making it very difficult to keep up. Once a nation of small shopkeepers, Japan is rapidly becoming a nation of giant superstore chains.

*Kenji Mizuguchi is president of the Strategic Design Institute in Tokyo and international chairman of Marketing Communications Executives International.*

### Numbers of Retail Outlets by Type

	Number of stores		Percentage of total		Percentage change	
	1988	1991	1988	1991	1985-88	1988-91
<b>Department stores</b>	433	455	0.0	0.0	-1.1	+5.1
Large-scale dept. stores	407	426	0.0	0.0	+1.0	+4.7
Other dept. stores	26	29	0.0	0.0	-25.7	+11.5
<b>General supermarkets</b>	1,478	1,549	0.1	0.1	+6.4	+4.8
Large-scale supermarkets	1,302	1,404	0.1	0.1	+8.7	+7.8
Medium-sized supermarkets	176	145	0.0	0.0	-7.9	-17.6
<b>Other general supermarkets</b>	373	375	0.0	0.0	+52.2	+0.5
<b>Specialty supermarkets</b>	6,397	7,159	0.4	0.4	+8.9	+11.9
Focus on clothing	571	618	0.0	0.0	+9.8	+8.2
Focus on foodstuffs	4,877	5,214	0.3	0.3	+3.6	+6.9
Focus on household goods	949	1,327	0.1	0.1	+46.9	+39.8
<b>Convenience stores</b>	34,550	42,976	2.1	2.7	+18.2	+24.4
Of which, specialty outlets	24,811	31,891	1.5	2.0	+34.6	+28.5
<b>Other supermarkets</b>	53,834	66,290	3.3	4.2	-9.7	+23.1
<b>Specialty stores</b>	1,007,756	1,000,154	62.2	62.9	-0.3	-0.8
Focus on clothing	151,370	154,651	9.3	9.7	+1.4	+2.2
Focus on foodstuffs	293,203	283,571	18.1	17.8	+0.8	-3.3
Focus on household goods	563,183	561,932	34.8	35.3	-0.3	-0.2
<b>Other types of retail outlets</b>	513,338	470,731	31.7	29.6	-2.2	-8.3
Broad range of products	1,663	1,890	0.1	0.1	+17.4	+13.7
Focus on clothing	78,608	76,903	4.9	4.8	+5.9	-2.2
Focus on foodstuffs	253,352	225,278	15.6	14.2	-6.7	-11.1
Focus on household goods	179,715	166,660	11.1	10.5	+1.2	-7.3
<b>Other retail outlets</b>	1,593	1,497	0.1	0.1	-22.4	-6.0
<b>Total</b>	<b>1,619,752</b>	<b>1,591,186</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.5</b>	<b>-1.8</b>

Source: 1991 census of commerce, MITI