

# From Family Store to Retail Giant

**Interview with Masatoshi Ito, president of Ito Yokado Co., by Toshio Iwasaki, editor of the Journal of Japanese Trade & Industry**

With 129 outlets nationwide and the highest return on sales in Japanese retailing, Ito Yokado is truly a retailing giant. Including its approximately 30 subsidiaries, among which are convenience stores, restaurants and department stores, Ito Yokado employs about 50,000 people, and the mammoth distribution group had total sales of approximately ¥2 trillion (\$13 billion) in fiscal 1987. Two of Ito Yokado's strongest subsidiaries, the Seven-Eleven convenience stores and Denny's restaurants, have already become household names in Japan even though they are relative newcomers.

In 1945, Ito Yokado consisted of a small (6.6 square meters) family-run dry goods store in the war ravaged *shitamachi* section of Tokyo. Masatoshi Ito, current president and CEO of Ito Yokado Co., Ltd., took over the family business in 1956 on the death of his older brother, the original company president. At the time, the company had a total of 20 employees. In the slightly more than 30 years since then, Masatoshi Ito has managed to develop Ito Yokado into the extensive retailing group that it is today.

**Question:** *What is your secret in turning a single small dry goods store into the huge Ito Yokado that you now oversee?*

**Ito:** I am frequently asked if I succeeded because of hard work or because I was just lucky. Actually, the answer is some of both. I was fortunate to have started out in business right after the war—the same time that a broad-based consumer society was beginning to develop in Japan. When I visited the United States for the first time in 1960, I experienced a kind of cultural shock at how rich everybody seemed. Japanese, like other

peoples the world over, envied the American way of life as symbolized in comic strips such as “Blondie,” but it was an eye-opening experience for me to actually see the high standard of living firsthand. As I observed the distribution industry and looked at various retail businesses such as supermarkets and other chains, I became particularly conscious of the sheer size of America's consumer society and the distribution techniques that made it all possible.

It then occurred to me that people in different cultures still have basically the same desires, assuming they are at about the same stage of development, and I thought that Japan's distribution system would become more like America's as the Japanese consumer society grew bigger. Ever since, I have visited America every year without fail, learning as much as I possibly could about distribution. There were even years when I made several trips to America. These business trips reinforced my belief that Japan and America are moving in the same general direction.

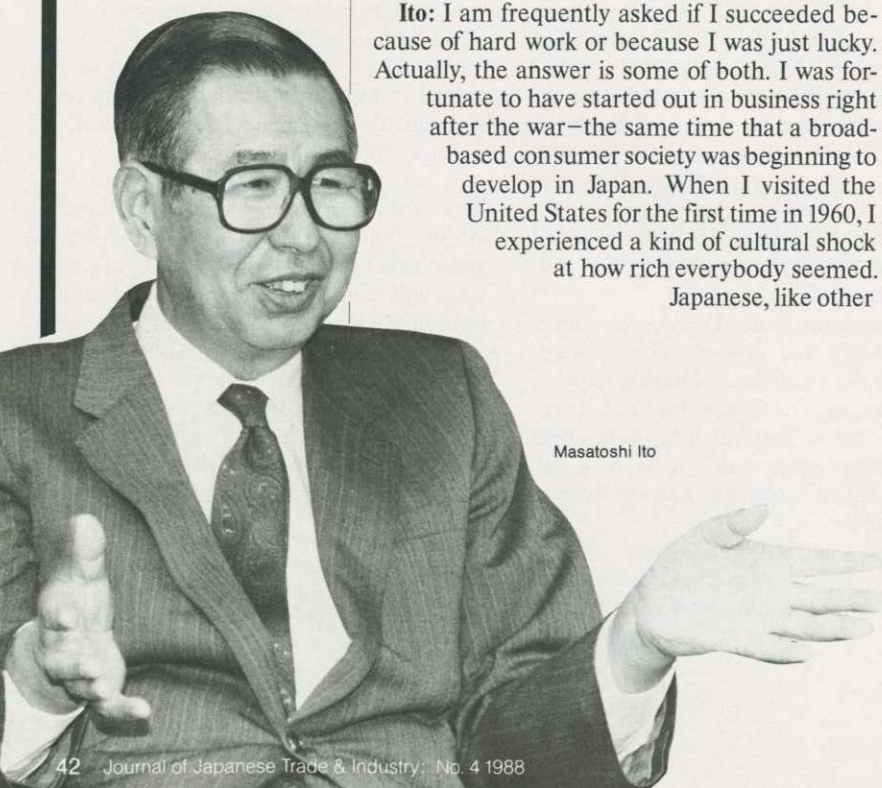
**Q:** *It seems that the key to Ito Yokado's success has been its ability to foresee changes in society. Surely there were some difficult periods.*

**A:** There were many. In the late 1960s and early 1970s, the superstore industry became extremely competitive and we had to increase sales volume in order to survive. To do that, we decided that our first priority had to be on increasing the number of stores we operated. However, in 1973, when the first oil crisis hit, financing dried up and we were actually in danger of liquidity bankruptcy—even though we were showing a profit.

Credit was also very tight during the second oil crisis of 1979, but we pulled through by borrowing ¥5 billion from Kuwait. In making decisions on who to loan money to, Japanese financial institutions have always had a bias in favor of manufacturing, and there has been a tendency to be somewhat indifferent to downstream industries such as distribution. In other countries, however, loans are approved strictly on the basis of business performance.

**Q:** *In fact, Ito Yokado convertible bonds issued in America have an AAA rating, the highest rating possible.*

**A:** Exactly. The first time we procured financing in America was after the first oil crisis, in



Masatoshi Ito

1977. At that time our company was given a higher rating than either Pan Am or the oil-rich Mexican government. It was then that I realized that even an unknown foreign company can get financing in America if its accounting data shows it is financially sound. This was also a bit of a cultural shock for me.

**Q:** *Realizing the contrast between the American custom of offering loans on the basis of a company's financial strength and the Japanese practice of preferring to lend to certain industrial sectors is helpful in trying to understand the basic differences in economic thinking between the two countries. But how do you explain this Japanese preference for certain sectors?*

**A:** Economic thinking in Japan is production-centered. Even marketing people start out by asking how they can sell what has been produced, and the whole cycle is only thought of in one direction: from production to distribution to consumption. This is why even the finance sector favors manufacturing companies and relegates retailing to a distant second. However, I have always considered the consumer first, and I think the proper way to conceptualize the business flow is from consumption to distribution to production.

It is the production-first mentality that gives rise to protectionism. For example, Japanese agricultural policy has a very production-oriented bent, and the question of where the products are actually going to end up, the consumption, is just an afterthought.

It is said that Japan operates on a principal of "equality of achievement" (as opposed to equality of opportunity), and it is tacitly acknowledged that this equality is sometimes attained at the sacrifice of other benefits. And this is what gives rise to restrictive regulations and blocks the opening of Japan's markets.

Let me give you an example. A kilogram of butter costs about ¥250 in Denmark, while Japanese confectionery manufacturers are presently paying ¥1,200 for the same amount of butter. Consequently, Japanese cookies are made with only 8% butter compared to the 28% butter content for cookies made in Denmark. This makes a big difference in the flavor of the cookies. Looking at it from the point of view of Japanese consumers, who would love to be able to eat inexpensive, delicious cookies, Japan's food industry must be further liberalized. This will no doubt have an adverse impact on Japan's dairy producers, but continuing to protect them is not only unfair to consumers, it is impractical. The

more an industry is protected, the slower it is to restructure.

This does not, however, mean that I am a market Social Darwinist. There is no doubt America is a great society to live in for the haves, but it can be a very harsh environment for the have-nots. On the other hand, America is a society based on free-market principles, where you are judged not by where you are from or the type of business you are in but purely on how well you perform in free competition. Everybody can play, and that is one of America's attractions for me. Even though Japan takes pains to ensure equality of attainment, it is impossible, in the end, to countermand the powers of the market.

**Q:** *You have been saying that Japan must start thinking more about the consumer. Given retailing's direct contacts with consumers, would you say that your industry has a larger role to play in achieving this turnaround?*

**A:** Precisely. Retailing is where production and consumption interface, and this has to provide manufacturing's basic input. Instead of thinking about how to sell products that have already been produced, we need to ask who the customer is and what he or she wants. And then we have to work back from what the consumer wants to how it can be produced and distributed. This will also help us identify the problems in our distribution structure.

Two things that make this possible are value-added networks (VANs) and point-of-sales (POS) systems. With the introduction of these systems, it is now possible to know very quickly how much of what was sold where. This is a major improvement from the old way, that only gave us gross sales figures, and enables us to pinpoint both potential and problems. At the same time, we can now go back to manufacturers from the consumer's standpoint and make manufacturers listen to the customer. It has only been in the last three years that this has become possible.

This gradual increase in consumer power is related to the formation of the mass-consumer society that I mentioned earlier. It is just in the last few years that Japan has started to become affluent and build the foundations for future growth.

**Q:** *How do you intend to deal with these changes?*

**A:** Because of the rapid increase in the value of assets in Japan, we are seeing a considerable divergence between people who own assets and people who make their living purely on flow. Since most supermarket customers are people who survive on flow, we have to work to offer

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**European and American companies trying to export to Japan should produce to Japanese market specifications, including instructions we can read.**

them the best value for their money. With the liberalization of imports, we should see about a 20% drop in prices at the retail level. Although I expect progress on both import liberalization and distribution deregulation, it is going to take time.

**Q:** *You said that you studied the distribution industry in America and that modern Japanese consumption patterns are finally starting to be premised on the American-style mass-consumption society. What do you see as the main differences between American and Japanese distribution?*

**A:** Japanese consumption patterns are more and more coming to resemble American habits. However, you don't accumulate the kind of wealth America has overnight. If you look at the domestic tourism industry, for example, the vast majority of lodging facilities are not equipped to handle long-term guests. It is unreasonable to try to change these facilities all at once, but it makes sense to gradually accumulate the infrastructure and amenities necessary to accomplish the changes that will put Japan on the same footing as the United States.

Likewise, Japan's distribution system is very unproductive, and constant efforts will be necessary to make it more practical. Looking strictly at market value, Ito Yokado is not only the number-one retailer in Japan but is also number one worldwide; but there are many areas where cultural and lifestyle differences make it impossible to compare numbers alone.

For example, food prices in America are about half those of Japan, so U.S. stores have to handle twice the merchandise, and incur twice the delivery costs, to achieve the same level of total sales as in Japan. Supposing that the Japanese market becomes liberalized and food prices fall to half their present levels, Japanese retailers will have to cope with double their delivery costs, and this in turn will mandate streamlining the whole operation. Even though our statistics indicate success, it is akin to getting good grades in school, and I am not sure that how well this translates into real-life excellence.

As a general rule, you could say that America is more adept at drawing up grandiose plans for tackling large-scale projects while Japan is better at dealing with individual problems in a detailed situation.

**Q:** *It is said that the Japanese distribution process is very confusing, and that distribution is one of the hardest industries to gain entry into. What are your thoughts on this subject?*

**A:** There is definitely some truth in that, but in other respects it is way off the mark.

In looking at the aspects that ring true, there is no doubt that Japanese distribution has doggedly clung to its traditional ways and too many layers of wholesalers. As a result, the system has not been able to keep up with the rapid growth of consumerism in society. However, if we are going to keep our handling costs in line with the lower prices that internationalization will bring, we have to shorten the distribution chain. Japanese consumers have put up with the long distribution chain in the past, but I doubt if they will be so forgiving in the future. Everybody knows that failure to modernize the distribution system can only mean higher prices.

But there is still a lot of unwarranted foreign criticism. If you want to sell your merchandise in Japan, you have to make an honest effort to penetrate the market. The NICs are making this effort, while American and European companies tend to just sit back and complain, as though the mere fact that their products do not sell as well in Japan as they do at home is proof of discrimination. When Japanese companies export to America, they produce to U.S. market specifications, including instruction booklets in English. By the same token, European and American companies trying to export to Japan should produce to Japanese market specifications, including instructions that we can read.

If Japan and the West could just remember that there are two sides to every story they should be able to reach an understanding, but they must be extra careful in light of the tendency to overreact in today's information society.

**Q:** *As someone who has made his mark in retailing, how do you tell your younger managers to view the future?*

**A:** Ito Yokado was first listed on the Tokyo Stock Exchange 15 years ago, in 1973, when our equity capital was only ¥2.5 billion. Now the group as a whole has equity capital totaling ¥400 billion. Precisely because of our rapid growth we found ourselves pioneering new business avenues that others had never tried. When a company gets as big as ours, it must deal with the unknown and the untried. Trying to overcome the 20%-or-more drop in retail prices that is inevitable with internationalization will require a different kind of effort than was needed in the past.

It is easy enough to follow in someone else's footsteps, but having to blaze your own trails is a very risky and challenging proposition. ■