

Competition Expected to Heat Up

“Survival of the fittest” becomes serious

The forecast for the retail industry is one of continued sluggishness due to prolonged low consumer demand. Although fiscal 1997 saw existing store sales at department stores decline a dramatic 6.5% compared with the previous period, partially because of a major decline in consumer activity following the consumption tax increase, sales at existing stores in fiscal year 1998 are expected to remain the same as the previous period. One reason for sluggish department store sales is the maturity of the apparel market, whose sales represent about one-half of total department store sales. In a mature market, “unsold merchandise cannot be sold even if the price goes down” so that there is a greater risk of goods remaining unsold. On the other hand, because apparel manufacturers are producing less merchandise, there are cases where product lines enjoying strong demand merchandise are in short supply, thus impeding sales increases. Under such circumstances, department stores and apparel makers are engaging in “QR” (Quick Response) oper-

ations through sharing sales information so that the accuracy of sales forecasts is improved, facilitating adjustments to output early in the fiscal year and additional production during it. In transactions between department stores and apparel manufacturers, transactions using the stockless purchasing system, which enables department stores to avoid the risk of accepting goods that will remain on the shelf for many days, are increasing. Under this system, the apparel manufacturers accept all risks and costs in the transactions, including the risk of goods left unsold and the cost of goods management. Accordingly, from a near-term viewpoint, the risk and cost at the department stores decrease, but from a medium- or a long-term viewpoint, department stores, too, stand to lose their ability to make selective purchases and their floor layout and goods display ability may deteriorate. Moreover, some apparel manufacturers, attaching importance to profitability, are withdrawing goods of popular brand names from department stores that are inferior in floor space efficiency or curbing the supply of goods to such department stores. In such developments, the struggle

for survival will escalate among department stores in districts where they face tough competition from suburban shopping centers.

In the general merchandise store industry, the growth rate of existing stores is expected to drop by 5.0% in fiscal 1997 and by 1.7% in fiscal 1998, due to housewives limiting expenses for daily living necessities resulting from a rising awareness of the need for conservation. Even under these circumstances, however, plans to open new stores are continuing at a high level, and thus there is continuous competition to acquire a growing share of a non-growing

market. In the general merchandise store industry, there is only limited room for market development, principally through opening new stores in areas where there is no existing competition. There is also keen competition to attempt to increase sales by providing parking lots, opening suburban stores convenient for transport facilities, and drawing off sales from existing stores. As a result, the efficiency of general merchandise store sales floors has declined rapidly in the 1990s and there is a growing performance gap between individual companies. The general merchandise store industry will not only see an accelerating trend toward survival of the fittest companies hereafter, but will also need to apply a philosophy of Scrap & Build that focuses more on profitability than before among surviving companies by constructing low-operating cost stores.

At present, the retail industry in Japan is making preparations to respond to the substantial changes in the regulations concerning the opening of large stores. A revision of the City Planning Law is expected to be enacted by fiscal 1998 so that the current Large-Scale Retail Store Law can be abolished and to enable local governments to select areas in which large stores can be opened. In addition, there are moves underway to establish a “large store siting law” (tentative name). As a result of this revision, the retail industry is expected to be strongly influenced by the introduction of screening procedures that focus on the environment, such as 1. the abolishment of operating regulations (business hours, business days, etc.) as a result of the abolishment of the Large-Scale Retail Stores Law; 2. the broadening of areas in which stores can be opened as a result of the revision of the City Planning Law; 3. the enactment of a “large store siting law” (tentative name). Along with deregulation, new measures that not only focus on securing the competitive condition of each company toward the 21st century but also place emphasis on consumers, such as how to cope with the entry of foreign-owned retail stores and with the aging of Japanese society, need to be taken.

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Large Retail Industry Movement -Long Term-



Source: Current Survey of Commerce, Statistics of the Japan Department Store Association, Statistics of the Japan Chain Store Association, Statistics of MCR. Forecasted by the Industrial Research Department of the Industrial Bank of Japan from fiscal 1997. Index of existing stores in the long term compiled by the Industrial Research Department based on official materials.