

A New Era in Japan's Retailing Market

Deregulation Paves the Way for Inroads by Foreign Groups



A decade of deregulation in Japan's retail sector, launched in response to the so-called Structural Impediments Initiative (SII) talks with the U.S. in 1989, culminated with passage of the new Large-Scale Retail Store Location Law governing retail businesses, which came into force in June 2000. The new legislation replaced the Large-Scale Retail Store Law, which had been criticized as a major obstacle to foreign businesses.

The old retail store law, in place since 1974, was designed primarily to protect smaller shops by restricting the operations of retail giants located close to the weaker players. The law required retail operators looking to open large stores to go through a time-consuming and painstaking "adjustment" process with local retailers, which often resulted in official orders to reduce business days or floor space.

Three rounds of decontrols, beginning in May 1990, have limited and shortened the adjustment process, allowed retailers to extend their closing times, and reduced the minimum number of required holidays. The new Large-Scale Retail Store Law focuses more on such issues as the impact a large store has on the environment, embodying the shift of policy emphasis from regulation to "coexistence."

The relaxation of the government's regulatory grip on retail businesses has triggered a rush by foreign retailers to establish operations in Japan. With over 100 million consumers who possess some 1,400 trillion yen worth of financial assets, the now-deregulated retail market of the world's second largest economy offers highly attractive business opportunities to foreign retailers.

Bold Strategic Moves by Foreign Retailers

Foreign companies began entering the Japanese retail market in the 1980s. Back then, the foreign newcomers generally established footholds in Japan through tie-ups or joint ventures with Japanese players who offered local expertise. For instance, Toys "R" Us-Japan, which opened its first outlet in 1991 and has since grown into the country's biggest retail toy chain, is a joint venture between its U.S. parent and McDonald's Co. (Japan) Ltd., the Japanese unit of the global hamburger chain. The two companies even share some of their locations. In recent years, however, an increasing number of foreign retailers, including Gap, Costco and Carrefour, are setting up operations on their own. They have adopted a "go-it-alone strategy" for more efficient store management and quicker decision-making.

The categories of retailers coming to Japan have also changed over years. In the 1980s, luxury brands like Louis Vuitton and Hermes led the move into Japan. In the 1990s, specialty store operators with distinct lifestyle images, such as Eddie Bauer and HMV, comprised the mainstream of new entrants to the market. Most recently, Costco, Carrefour and other comprehensive retailers are beginning to claim the spotlight with their high-profile forays into the market. The overall presence of foreign retailers in Japan has expanded from the luxury product category into more everyday goods, significantly boosting market penetration of foreign brands in these areas.

Another notable trend is an increasing consumer interest in retail

Foreign Retailers' Entry into Japanese Market

	Luxury Brands	Non-luxury Brands	New to Japan
Before and during 1980 s	1981: Louis Vuitton Japan (France), Wholly Owned (except 1 %) 1983: Hermes Japon (France), Seibu Department Stores, 10% share		1979: Tower Records Japan (US), Wholly Owned
1st Half of the 1990 s	1991: Prada Japan (Italy), Wholly Owned 1991: Bvlgari Japan (Italy), 2 Japanese partners, 20% share	1993: Nike Japan (US), Wholly Owned 1993: Eddie Bauer Japan (US), Otto-Sumisho, 70% share	1990: Virgin Megastores Japan (UK), Marui, 50% share 1990: HMV Japan (UK), Wholly Owned 1991: Toys "R" Us-Japan (US), McDonald's Co. (Japan), 11% share
2nd Half of the 1990 s		1995: Gap Japan (US), Wholly Owned 1996: Pier 1 imports(US), Akatsuki Printing - <i>Withdrew</i> (2001.6) 1998: Zara(Spain), Wholly Owned	1997: Office Depot Japan (US), Wholly Owned 1997: OfficeMax Japan (US), Jusco (currently Aeon) - <i>Withdrew</i> (Jan. 2001) 1997: Sephora AAP Japan (France), Wholly Owned (LVMH Group) - <i>Withdrew</i> (Dec. 2001) 1999: The Boots (UK), Mitsubishi - <i>Withdrew</i> (Dec. 2001)
2000 s			2000: Amazon.co.jp (US), Wholly Owned

Note: The figure before each company name indicates the year of entry. Following each company name is the name of its partner(s) in Japan (including tie-ups and joint ventures) and the equity stake of the partner(s). "Wholly Owned" indicates there is no partner. The classification of brands is arbitrary.

businesses based on concepts new to Japan, such as membership warehouse clubs (Costco), hypermarkets (Carrefour) and membership food wholesalers (Metro). All these players are striving to expand their presence in Japan by opening stores at a rapid pace. In December 2002, Wal-Mart, the world's largest retailer, acquired a controlling stake in The Seiyu Ltd., the sixth largest supermarket operator in Japan. Also jumping into the race is Tesco, the No. 1 supermarket chain in Britain, which plans to edge into the Japanese market.

Winners and Losers

According to Izumiya Research Institute, a think tank affiliated with a supermarket chain, 39% of the 79 foreign retail companies that entered the Japanese market since 1980 have sprouted into chain retailers with 10 or more outlets. The bright picture of these success stories, however, is tempered by the fact that 38% of foreign retailers attempting market entry during the same period eventually retreated. OfficeMax, Sephora and The Boots are among the major foreign retailers that exited from Japan recently.

Their poor performance in Japan is attributable at least in part to poor preparation. Sephora, for instance, located its perfume section in the important first floor of its stores, despite relatively small sales of perfume products in Japan. The Boots made the strategic blunder of choosing locations that didn't fit its store concept and failed to market its private brands effectively.

Japanese consumers are known as fastidious shoppers who pay close attention to product quality, selection and what's selling well. But they are also known for their continued loyalty to brands they have embraced. The most crucial ingredient for success in today's liberated Japanese retail market is the tried-and-true formula of conducting comprehensive market research and covering every base, from consumer preferences to the best commercial locations and most effective sales channels.



Marunouchi, Tokyo. A business district reborn as a name brand retail center. The town's new symbol is famous foreign brands.

Retail Deregulation and Foreign Retailer Store Openings in Japan

- 1990** May: Measures adopted to improve implementation of the Large-Scale Retail Store Law.
- 1991** December: Toys "R" Us opens first store in Japan in Ami, Ibaraki Prefecture.
- 1992** January: Revision of the Large-Scale Retail Store Law takes effect.
- 1994** May: Deregulation measures provided by revised Large-Scale Retail Store Law take effect.
- 1999** April: Costcoco opens first store in Japan in Hisayama, Fukuoka Prefecture
- 2000** April: Toys "R" Us goes public on the over-the-counter market.
June: Large Retail Store Location Law takes effect, superseding Large-Scale Retail Store Law
December: Costcoco opens store in Makuhari, Chiba Prefecture.
: Carrefour opens first store in Japan in Makuhari, Chiba Prefecture.
- 2001** January: Carrefour opens store in Izumi, Osaka Prefecture.
February: Carrefour opens store in Machida, Tokyo.
August: Carrefour abandons plan to open store in Kinshicho, Tokyo.
- 2002** March: Carrefour abandons plan to open store in Rinku-Town.
September: Costcoco opens store in Machida, Tokyo.
November: Carrefour opens store in Sayama, Saitama Prefecture.
December: Metro opens first store in Japan in Chiba.
: Toys "R" Us opens 133rd store in Japan.
: Wal-Mart acquires initial 34% stake in Seiyu (with option for controlling stake).
- 2003** February: Metro opens store in Kawaguchi, Saitama Prefecture.
March: Costcoco to open store jointly with Carrefour in Amagasaki, Hyogo Prefecture.
October: Carrefour to open store jointly with Costcoco in Amagasaki, Hyogo Prefecture.
: Carrefour to open store in Minoo, Osaka Prefecture.

Note: Some information for 2003 reflects tentative plans (research by Toyo Keizai Inc.)