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Changing Environment for Food Retailing In Japan and South East Asia

by

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Introduction

The incredible growth rates experienced by Japan and the newly industrialized economies of southeast Asia in the last three decades have been analyzed countless times by western observers. Many have also pointed out the links between economic growth and rapidly increasing imports.

However, few commentators have discussed how rapid increases in domestic and import demand put severe strain on a nation's distribution system. In general, wholesalers and retailers react with a considerable lag to changes in consumer demand. Indeed, in the case of Japan, many U.S. observers have argued that the Japanese have deliberately retained a tortuous distribution system as a method of curtailing imports. That is one of the topics on the table in the Structural Impediments Initiative now going on between senior U.S. and Japanese officials.

However, changes have been taking place in the distribution system of key Asian markets. These changes are rooted not just in changing economics, but in changing social, cultural and legal milieu. As these markets become more sophisticated and opportunities for increased trade depend more and more on finding market niches, it becomes more critical to understand how Asian retailing is changing. Often a key element in accessing any market niche is knowing how it is affected by retail structure. For lack of space, I will focus here primarily on Japan and Hong Kong.

Common Factors

A number of common underlying factors are the driving force behind change in food and non-food retailing in Asia. These factors are particularly relevant in urban Asia.

The countries on which I am focussing have become industrial societies. More and more of the economic activity takes place either in large factory units or in large clusters of small factory units. In most cases, land is relatively scarce, so the rapid growth of the urban industrial population and of the accompanying services has led to intense urban congestion.

Thus, population density is high both in areas where people live and where they work. Space is at a premium. Mass transit is extremely important for moving people from where they live to where they work.

Population density has numerous effects on retailing. One can make a reasonable living even with a small selling space where population traffic is sufficiently heavy. Living space in urban areas is limited, cramped and expensive. Per capita floor area of housing in Japan is one half that in the United States and well below European standards. Activities normally carried out by Americans in the home, such as entertaining, must be conducted in hotels, restaurants or public places. Cooking and refrigeration facilities are both more limited and smaller than in an American home. More eating out is encouraged, and limited storage encourages more frequent shopping for smaller units. Commuting days are often long. For example, a typical salaried man in Tokyo may be gone from home for over 12

hours per day. Over two-thirds of Japanese workers commute more than one hour each way.

However, the dense populations, fast-paced lifestyles and rising incomes do make newer forms of retailing, such as self-service supermarkets, more feasible. As a result, traditional and modern forms of retailing co-exist in an uneasy relationship. It would be naive to assume that as these countries continue to grow economically, their retailing systems will evolve like those in the United States. While learning from the American experience, the Japanese, Korean and Chinese will find their own unique solutions to retailing problems.

Another common, but misleading, phenomenon is that as these countries change their distribution systems, they often borrow names that are common in the United States, such as supermarkets, superstores or convenience stores. However, these entities often differ in size, product mix, mode of operation and growth potential from their Western cousins.

The Example of Japan

American commentators often naively assume that Japanese retailing is an economic dinosaur that has failed to keep pace with changes in the industrial sector and is doomed to extinction. In fact, many of what we would consider to be traditional, small stores are relatively new both in terms of years in business and the physical space occupied. To a great extent, the Japanese distribution system is a direct response to the needs of an extremely congested nation where space is limited and transportation is difficult. Its structure is reinforced by characteristic Japanese methods of doing business.

For example, in 1986, the wholesale-retail sales ratio in Japan of 4.8 was more than double that of the United States and triple that of West Germany or France. Only 23 percent of all retail outlets in Japan were classified as large, compared to 50 percent in the United States and 76 percent in the United Kingdom. However, note that the percentage in West Germany was only 21 percent due to greater franchising in reaction to a tax burden on retail chains. Small, independent stores had become a minor proportion of retail outlets in the United States, United Kingdom and West Germany, but were still over half of all Japanese retail outlets. By the mid-1980s the number of small stores in Japan had begun, for the first time, to contract. Much of this appears to be related to unwillingness by the younger generation to take over the family retail business due to the long and inconvenient work-

ing hours and the attractiveness of alternatives in commerce and industry. For example, my colleague, Dr. Ray Jussaume, found in one sample of small produce retailers that over three-quarters had been working in their business for over 20 years.

Food retailing shares many of the characteristics of all Japanese retailing. There are many small neighborhood general groceries and specialty stores for rice, baked goods, seafood, produce, etc. However, about 20 percent of the value of sales of Japanese department stores is food, and about 40 percent of the sales of superstores (similar to our discount supermarkets) is food. For imported foods, a much higher proportion tends to be bought in department stores and supermarkets. Department stores tend to be located at major metropolitan stations where there is heavy daily commuter traffic, whereas superstores cater more to the affluent, motorized suburban traffic.

Daily shopping for food is the norm. For example, in a comparative survey of Kobe (Japan) and Seattle (U.S.), Jussaume found that only two out of every 20 Seattle respondents shopped daily, compared to 11 out of 20 in Kobe. Almost 85 percent of Seattleites spent over half of their food budget in supermarkets compared to about 35 percent of Kobe respondents. In contrast, while only 6.7 percent of Seattle respondents spent half or more of their food budget at consumer cooperatives, 38.5 percent of Kobe respondents claimed to do so. Consumer cooperatives are extremely important to the Japanese because of their emphasis on quality and food safety. When asked what factors they judged very important in where they purchased food, both Seattle and Kobe respondents considered freshness of produce, store cleanliness and quality merchandise more important than low prices. However, Kobe respondents gave the biggest edge to freshness of produce and quality of merchandise, both of which are easiest to ensure in small, personalized food outlet.

These and other factors will help to reinforce the current Japanese food retailing system. Consumers still need to shop frequently in quantities that can be easily hand-carried on foot or by bus or train. Neighborhood loyalties remain strong, both in the sense of solidarity between old acquaintances and in acknowledgement of the tangible personal service and quality guarantees provided.

The complex wholesale system also plays a special role for the many small undercapitalized retailers who lack storage space, credit and new

product knowledge, but whose survival depends on reliable supplies just-in-time. Wholesalers can provide frequent deliveries, retailing and merchandising services, and credit and can take back unsold merchandise. Despite criticism of their inefficiency and predictions of further attrition, the number of wholesale outlets, which had fallen from 428,858 in 1982 to 413,016 in 1985, actually rose to 436,502 in 1986. Some of the factors contributing to this persistence of wholesale businesses may be the continuing proliferation of products and the need for retailers to pass off risk to their wholesale suppliers.

Another factor which has limited changes in the retailing sector is the system of regulations designed to protect smaller retailers including the Large-Scale Retail Stores Law of 1974 which "requires any store with floor space of 500 square meters or more to comply with a passel of rules governing the opening date, the store hours, the number of holidays, and many other matters. Technically the operators need merely inform the authorities of their plans in these areas, but in practice no store can open until the authorities have given their approval. For such reasons the law has lengthened the average period for opening an store from two years to six, and many plans for new outlets must be scrapped" (Nakauchi, 1989). Pressure both from within and outside Japan is mounting to change that law, but change will be politically difficult.

Hong Kong, the Contrast

Hong Kong shares many of the environmental conditions prevalent in Japan but to a much greater extent in some cases. For example, urban congestion has been accentuated by the effort to accommodate on very limited land area successive waves of refugees from China. Living space is really at a premium. Cooking facilities are negligible and storage space limited, even for middle income citizens. New high-rise apartment complexes have sprung up and have been accompanied by the simultaneous building of modern stores and shopping centers. However, the very rapidity of Hong Kong's economic growth means that traditional street peddlers and wet markets subsist alongside modern supermarkets and glitzy department stores.

Hong Kong society is also much more eclectic than is typical in Japan. Tourism, as in other parts of Asia, is growing rapidly and is increasing the diversity of market demand. Firms with Hong Kong, Chinese, U.S. and Japanese connections are all major players in the retailing sector.

The number of supermarkets doubled every five years in the 1970s, then tripled in the 1980s. Since the mid-1980s there has been a rapid expansion of convenience stores, with a further doubling forecast by 1990. Because of limited housing and cooking space, eating away from home is exceptionally high. But, while the fast food business has more than doubled, growth has continued in sit-down restaurants, both Chinese and non-Chinese.

Because Hong Kong is such an open market, retail chains are inundated with requests to handle products from all over the world. Given their limited shelf-space, even in supermarkets, chains demand, and get, expensive promotional fees before handling a product. The traditional Hong Kong chains, Park 'n Shop and Wellcome, have a reputation for being particularly difficult to deal with. The newer Chinese and Japanese chains, such as Jusco, Daimaru, Uny and Yaumatei are considered more reasonable.

A major issue in Hong Kong is whether the newer forms of retailing will rapidly eliminate the traditional wet markets and street hawkers. The assumption is that employees in these occupations are older and less skilled, and that replacements will not be found because of higher pay in commerce and industry. However, this analysis ignores the potential for refugees from a troubled China as well as the hidden advantages of tax avoidance in the underground economy.

Clearly, in Japan, Hong Kong and the other newly industrializing economies, rapid changes are taking place in the retail sector, even though changes here are lagging somewhat as compared to what is happening in some of the more technically advanced sectors. American exporters will have to face very mixed distribution systems, particularly as they attempt to tap specific market niches. In the future, an understanding of the distribution system may be as critical to successful exporting as knowledge of markets or products.

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