SOCIAL TRENDS

by Michael Smitka

Changing retail, changing lifestyles

From mom & pop to malls

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In 1983, my family spent a summer in a house on a Tokyo shopping street (*shotengai*) that radiated out from the local train station in Sumida. Within hours of our arrival, my wife had been taken around the neighborhood by the owner of the adjacent store, whose family lived on the second floor. Thereafter retailers helped her with the day's pre-dinner purchase of vegetables and fish. That was fortunate, because my wife could speak no Japanese, and on many days I did not arrive home until after 7 pm, by which time their shutters were lowered. For something unusual, we needed to take the train to the largest nearby station with its Sogo department store. The next time we lived in Japan, in 1991, things were much the same.

But when I returned to Japan in 2006, I found the "traditional" world—a bipolar system of small shops at one end and large, elite stores at the other—rapidly disintegrating. The Sogo department chain where we shopped in 1983 went bankrupt in 2000. Their space is partly occupied by a mix of stores. *Shotengai* throughout Japan are lowering their shutters for the last time.

Brave new world

In suburban Chiba, where I lived during 2006-7 there was no retail street, though I eventually found a small vegetable store. Development had leapfrogged the congested station area to concentrate on areas a kilometer away with bigger plots of land. People piled out of the train station into buses waiting to take them home. While there were a variety of stores in the two blocks around the station, almost all were franchised operations: restaurants, and the coffee shops, drug stores and 24-hour convenience stores of rival chains. The multi-floor Daiei supermarket across from the station had closed years before. The vacated space had been taken over by game centers and karaoke rooms. It was thus not just the mom-and-pop neighborhood stores that were lacking, but also the department store that would have been expected at such a busy station.

Suburbanites now shopped by car, from an array of stores built since 1990. If I on my bicycle braved traffic in one direction along the main thoroughfare, I passed a 100-store outlet mall in Makuhari, then Costco and next Ikea to finally arrive at the 500-plus-store Lalaport Mall with its 8,000 car parking lot. In the opposite direction I could follow the old coastline road past store after roadside store—a drive-through coffee shop, a sushi shop built on pilings so the plot beneath could be used for parking, and a discount men's clothing outlet—before I came to a brand new, kilometer-long mall on the former site of a steel mill, replete with a home center, a movie theater complex, and two huge rival grocery stores.

Along the way, with parking for perhaps 80 cars, was Yamada Denki, an exemplar of the new world. It—not Yodobashi Camera or Bic Camera, both known for their multi-floor stores opposite major train stations—is Japan's largest and most profitable retailer of consumer electronics and home appliances. In 2007, all of Yamada Denki's stores were along major suburban and rural roads; none were in urban centers, none were sited with public transport in mind.

Nearer at hand, along a secondary road, a developer had bought a shuttered factory, replacing it with a large food supermarket with lots of parking. On the second floor was a discount clothing store and on the third a large Daiso, the most successful of Japan's ¥100 store concept. This branch was well-lit, laid out pleasantly in departments that made it easy to find a wide array of fashionable, high-quality goods, many designed by the parent company and sourced from China. That was where I outfitted my kitchen and office—knives, cutting boards, staplers, and so on—and got socks, gloves, bicycle parts and snacks. Most cost ¥100 ($1.10), with scattered items at ¥200 or ¥400 (my French press for making coffee) to round out the selection.

While I was nostalgic for the mom and pop retailers who would greet me by name, I had to admit that this retail revolution was wonderful: from far greater variety to lower prices. I could find clothing that fit, at prices lower than in the US. My previous year's designer sportcoat was ¥3,500 ($39); turtlenecks from the Uniqlo chain were ¥1,000 ($11). A five-minute walk took me to a 24-hour "¥99" store that sold vegetables and other prepackaged food in single-meal sizes. The local supermarket was open until 11 pm; no more worries about being unable to get food if I wasn't home early.

Forces for Change

What caused this revolution in retailing and thus in so much of the day-to-day life of ordinary people?

The first force is higher incomes. Despite the "lost decade," per capita GDP rose 35% in the 20 years through 2008. It took time for those who grew up poor in the 1950s-60s to adopt a "middle class" lifestyle. But as they approached retirement, the baby boomers found themselves with empty nests and adequate savings. They indulged in luxuries and develop hobbies. Small niches became substantial markets.

By the 1990s, most homes had not just a refrigerator but a separate freezer and not just a small internal unit. By 1996, 90% of households also had a microwave range. Thus arose a potential market for frozen, ready-to-cook foods.

Nor was storage space as big a constraint; in 1978 the average residence had but 80 square meters, but by 2003 this had risen to 95 square meters (just over 1,000 square feet). Outside of the Tokyo and Osaka-Kyoto metro areas, houses average 130 square meters (1,400 square feet). Meanwhile, the average household fell in size. Hence, housing space per person expanded 56% during 1978-2003. Such changes led to new markets for a wide variety of goods and services.

The second big force is suburbanization. Chiba city, 45 minutes east of Tokyo

Station by express train, had under a half million people in 1970; today it has just under 1 million, and continues to grow slowly. In the late 1960s, developments of single-family housing made no provision for parking; a friend had to tear down part of his house when he bought a car. Today, home-builders presume that residents will own cars, even if they take a bus to the local train station for their daily commute.

But that change is recent. In 1988 there were only 200,000 vehicles in the city, most used by businesses. That had risen to 300,000 by 1995 and 375,000 in 2006, with all of the increment in passenger cars.

Roads are better. During the past five years, the missing links of the "ring" expressway system around Tokyo were finally completed, as were many feeder road segments in the suburbs. Retailers could locate stores with the assumption that most consumers had a car, while improved roads meant a vast increase in the effective population reach from a well-sited mall.

The third force is ease of development. The collapse of the bubble and the decline of heavy manufacturing meant both cheaper real estate and the availability of large tracts at the sites of former warehouses and factories—and in urban centers, train yards.

This was complemented by the effective abolition of the Large Store Law that had hampered development of stores over 1,000 square meters. That law was reversed over the course of the 1990s. After 1998 it became possible to go from planning to groundbreaking in less than two years, with no restrictions on hours. In the background were additional regulatory shifts that affected specific retail genres, including the abolition of the monopolistic rice retailing system (the neighborhood rice shop has vanished), the opening up of liquor licenses to a wide array of retailers, new rules for pharmaceuticals and health products, and the approval of self-service gasoline stations.

Innovation and power balances

The fourth force is innovation in both retailing techniques and power balances. Retailers offered new retailing concepts, like convenience stores and franchising. Many have adopted aggressive use of Information Technology. At the same time, there has been a shift in bargaining power from manufacturers to retailers on issues like control over supply chains and pricing.

Some of this was built around models from other countries. MacDonald's was the innovator in Japan in restaurant franchising, and remains Japan's largest fast-food retailer. The US convenience store was a model for Japan's 7-11 stores, the most profitable retail operation in Japan.

Then there are megastores, dominated by Jusco and Aeon. As with Wal-Mart—but to my knowledge with no conscious borrowing—they quickly covered rural areas with hypermarts and malls while gradually expanding their suburban presence.

Overseas rivals Carrefour and Tesco entered and exited. Wal-Mart purchased a stake in the Seiyu Stores chain in 2002, now a wholly-owned subsidiary, but the chain has lost money for the past 8 years. These foreign entrants found that Aeon and Jusco had the best locations and integrated supply chains supported by strong IT infrastructure; their strategic space was already occupied. Just as in the US, where the initial innovator was not Wal-Mart but the now-bankrupt K-Mart, in Japan it was Daiei, which proved slow to adapt. After a de facto bankruptcy, it is slowly being absorbed by Aeon.

As in the US, a drive along suburban roads finds electronics discounters, home improvement stores, and shoe, sporting goods, and men's clothing outlets along with food supermarkets and small malls. Conscious adaptation of foreign concepts abounds. In some segments foreign brands dominate, such as the 30 outlet malls run by the US-based Chelsea Property Group. With its focus on premium items, it runs the most successful and largest outlet mall.

A final example is small urban outlets. Convenience stores date from the 1970s, with long hours and (particularly for 7-11) a strategy of targeting liquor store owners as franchisees, since it would otherwise be hard to get a license, and selling beer and whiskey 24/7 was the sort of convenience that made these stores profitable. The chain expanded upon this to pioneer 24 hour operations and to restock food items multiple times a day to target varying morning, noon, evening and night customers. Backing this was their own distribution system, integrated backwards into food preparation, delivery and warehousing, complemented by a sophisticated IT system to allow franchise holders to adapt their inventory to the local market and even the weather forecast.

The ¥100 stores noted above made inroads against miscellaneous deep discounters with their clear marketing strategy but backed by attention to store layout and unique products; Daiso, the leader, offers franchisees roughly 90,000 items from which to choose, and likewise has integrated backwards to source its own designs directly from manufacturers, domestic and overseas.

As these examples suggest, in the background is a complementary revolution in wholesaling.

Nostalgia loses

By 2007, the *shotengai* in our old home in Sumida was in visible decline. Despite increased foot traffic from new condominiums, the street had no parking, indeed barely room for bicycles. Many of the owners lived above their shops, and if their original store went into decline, they were reluctant to lease to outsiders, or had space too small and old to attract anyone. Some had shifted to a convenience store or other franchised format, but this seemed to be more an act of desperation than the reflection of a careful retail strategy. In other areas of Japan, such *shotengai* (shopping streets) have turned into *shataa-gai* (shuttered streets) as the accumulation of shuttered shops snowballed into a collapse of the entire street as an effective retail location. That is particularly true in small towns and regional cities, but there are also several such in Chiba City. The collapse is rapid; the most recent retail census (June 2007, released July 2009) still found 1.47 million retail and wholesale establishments, but that was down 11% over 2004 and 24% over 1999, mostly among 1-4 person establishments. Meanwhile, retail floorspace continued to rise.

At the same time, retailers are trying to rid themselves of poorly performing old sites. While 7-11 continues to add 600 or so new stores to its current 14,000, half of those in fact replace existing stores as 7-11 tries to shift from old locations chosen because of where the local liquor store was to sites with higher foot traffic or better parking. That is also clearly true among hypermarkets, where there is clearly excess capacity but where company unions and the entreaties from landlords and neighboring businesses mean that exit is slow; Wal-mart has only just completed the shuttering of 23 of its poorest performing Seiyu stores.

Gone is the neighborhood feel of retailing, but consumers pay lower prices, while the better retailers have maintained total profits. Consumers have voted with their feet, or rather their cars.