

Margot Holland

2 October 2006

Thesis Prospectus

Foreign Discount Retail Stores:

Will the Wal-Mart Model Work in Japan?

The fate of overseas retailers in Japan is never an easy one to predict. There are many success stories, but it seems lately that just as many headlines are calling out that yet another foreign firm has “hit the wall.” For large foreign firms specializing in discount retail, the battleground of Japan’s retail market has recently become the focus of much attention. Japan is the world’s second largest market after the United States, and has newly become more accessible for foreign retailers due to a decade of deregulation and economic downturn (“A New Era” 14). Prior to these changes, however, the Japanese market was a very difficult one for foreign firms to penetrate, but since the reforms, many foreign firms have taken a shot. While some have been forced to retreat after years of losses, others have flourished and expanded throughout the country. What separates the winners from the losers? In this study, I will compare the experiences of Wal-Mart, Carrefour, Costco, and Toys “R” Us through the use of interviews and other research. I will also analyze the history and effects of laws such as the Large-Scale Retail Store Law and Large-Scale Retail Store Location Law on these firms.

Today there are many obstacles for foreign retailers to overcome, including the sheer competitiveness of the market. For every 10,000 people, there are “91 grocery stores, supermarkets, or convenience stores” in Japan, but only 62.3 in France and 54.8 in the U.S. (Hasegawa 12). This means foreign companies entering the market have to

come in with full force and full pockets to get noticed and turn their businesses profitable. What separates the winners from the losers? Although trends in the market change rapidly, the best formula for success is to conduct appropriate research on the Japanese market to discover what the Japanese want, find a Japanese partner firm, and promote the products and services, because if the Japanese do not know it is available, they will not buy it.

RESEARCH

I plan to form a better and more comprehensive thesis statement after the completion of more research that will answer my research questions: Will the Wal-Mart model work in Japan? How do the experiences of Costco, Toys “R” Us, and Carrefour compare to that of Wal-Mart and what can they teach about the Japanese retail market?

Following the introduction I will discuss background information, the current retail situation in the world, and what is happening with global competition among the relevant companies. Narrowing in from the global discussion, I will then give brief historical information on the Japanese retailing industry. I will also give a full discussion on two important laws that have affected the retail situation, the Large-Scale Retail Store Law and the Large-Scale Retail Store Location Law. This section is followed by an explanation of the typical Japanese consumer, the characteristics that make them different from other world consumers, and the demographics of these people. This section ends with information about the current technology in Japan used in retailing. Retail technology is an important factor currently giving Wal-Mart the edge on Japanese retailers and a factor that has shaped recent changes in the industry.

After setting the scene, I will move to the first store and focus of the thesis. Wal-Mart is the number one largest retailer in the world, based on revenue, and is currently operating in sixteen markets worldwide including its home of the U.S. (*Seiyu* 2). Operating stores in Canada, China, Mexico, Brazil, Germany, the United Kingdom, Argentina, South Korea, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Puerto Rico, and now Japan, Wal-Mart refers to itself as a “global” retailer (2). Wal-Mart began acquiring interest, starting with 6.1 percent, in the struggling Japanese retailer Seiyu, Ltd. in May 2002 (Rowley “Can Wal-Mart” 18). After being turned away by other troubled Japanese retailers, Seiyu, now Japan’s fourth largest retailer with over forty years in business, provided the perfect opportunity for Wal-Mart to step into the market with little resistance (*Seiyu* 4). Over the span of three years, Wal-Mart gradually increased its stake in Seiyu to the current 53 percent and in December 2005, Seiyu became a subsidiary of Wal-Mart Stores, Inc. (3; “Wal-Mart Japan unit” 1). Although Wal-Mart now controls Seiyu, its Japanese stores still do not resemble, in the least, its American “supercenters,” and the “Wal-Mart name is nowhere to be seen” (“Wal-Mart enters” 1). In fact, it is safe to say the average Japanese consumer has no idea that Seiyu is now being run by Wal-Mart. Why does Wal-Mart choose to remain invisible in Japan?

The discussion on Wal-Mart will be followed by ones on Costco, Toys “R” Us, Carrefour, and one on a Japanese retailer, Aeon. These stores have all had different experiences in Japan with Carrefour being the most extreme example as they were forced to withdraw from the Japanese market after only four years. The section on Carrefour and Toys “R” Us will be to illustrate two different success cases, or at least success so far. Aeon is stepping up against the competition from Wal-Mart and it will be interesting to

see what will happen to them- if they become more like Wal-Mart or if they can find another to stay afloat. Some of the sections on the stores, especially the Seiyu section, will utilize the marketing analysis structure called SWOT- strengths, weaknesses, opportunities, and threats. The comparison of retailers will be followed by a discussion on the future direction of Wal-Mart based on what can be learned by the experiences of the other foreign retailers and a conclusion.

In Japan, I did interviews with the help of a Japanese student, at Costco, Seiyu, and Toys “R” Us in Japanese. The student and I researched mostly online sources and textbooks in English and Japanese. I am also going to be using primary sources about Japanese retailing.

Sources

“A New Era in Japan’s Retailing Market: Deregulation Paves the Way for Inroads by Foreign Groups.” *Invest in Japan* 2003, Special Ed. Vol. 2. JETRO. Accessed 5 Apr. 2006 < http://www.jetro.go.jp/en/invest/newsroom/newsletters/pdf/sp_02.pdf>. 14-15.

“Carrefour exits Japan and Mexico.” *BBC News* 10 Mar. 2005 <<http://news.bbc.co.uk/1/low/business/4335587>>.

“Carrefour Japan transfers shares to Aeon.” *The Japan Times* 11 Mar. 2005: 8.

Costco. Accessed 11 May 2006 <<http://www.costco.com>>.

Goda, Eiryo. “Carrefour hits the wall in Japan.” Japan Consumer Marketing Research Institute. 2005. J-Marketing.net. Accessed 17 Feb. 2006 <http://jmrlsi.co.jp/english/case/jmarket/2005/01_car4.html>.

- Goda, Eiryō. "Carrefour: Can Carrefour Succeed in Japan?" Japan Consumer Marketing Research Institute. 2002. J-Marketing.net. Accessed 18 Apr. 2005 <http://jmrlsi.co.jp/english/case/jmarket/2001/02_carrefour.html>.
- Hasegawa, Kyoko. "Consumers like low prices, not cheap goods: Carrefour, Wal-Mart megastore models lose favor." *Japan Times* 15 March 2005, 3rd ed.: 12.
- "Japan Fact Sheet." May 2006. *Wal-Mart Stores*. Accessed 8 May 2006 <<http://walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=377>>. 1.
- "Japan Operations." Wal-Mart. Accessed 8 May 2006 <<http://walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=377>>.
- Kageyama, Yuri. "Japanese love 1st big Wal-Mart even if shopping there is tiring." Associated Press.
- Katz, Richard. *Japan: The System that Soured, The Rise and Fall of the Japanese Economic Miracle*. Armonk, NY: M.E. Sharpe, 1998.
- Lark, Roy. *Japanese Retailing*. New York, NY: Routledge, 1994.
- Meyer-Ohle, Hendrik. *Innovation and Dynamics in Japanese Retailing: From Techniques to Formats to Systems*. New York, NY: Palgrave Macmillan, 2003.
- O'Connell, Patricia, Ed. "Japan's Answer to Wal-Mart?" *BusinessWeek* 24 Feb. 2005. Accessed 8 May 2006 <http://www.businessweek.com/bwdaily/dnflash/feb2005/nf20050224_3104_db053.htm>. 1-2.
- Rowley, Ian. "Can Wal-Mart Woo Japan?" *BusinessWeek* 10 May 2004: 18-19.
- Rowley, Ian. "Japan Isn't Buying the Wal-Mart Idea." *BusinessWeek* 28 Feb. 2005. Accessed 8 May 2006 <http://www.businessweek.com/magazine/content/05_09/b3922073.htm>. 1-2.

Rowley, Ian. "Wal-Mart's Waiting Game in Japan." *BusinessWeek* 21 Dec. 2005.
Accessed 14 Feb. 2004 <<http://uk.biz.yahoo.com/051221/244/fzrfd.html>>. 1-3.

Sakai, Kunio. Personal Interview. 27 Feb. 2006.

Seiyu Annual Report 2006. March 2006 <<http://www.seiyu.co.jp/english/pdf/annual/2006/all.pdf>>.

"Toys "R" Us." *Wikipedia*. Accessed 10 Mar. 2006 <http://en.wikipedia.org/wiki/Toys_%22R%22_Us>.

"Wal-Mart CEO pleased with Seiyu rehabilitation." *The Daily Yomiuri* 21 Apr. 2006, ed. B: 8.

"Wal-Mart enters Japan's market at a calculated pace." *Taipei Times* 2 Nov. 2003.
Accessed 14 Feb. 2006: 12 <<http://www.taipetimes.com/News/bizfocus/archives/2003/11/02/2003074338>>.

"Wal-Mart Japan unit Q1 operating loss narrows." *New York Times* 27 Apr. 2006.
Boston.com. Accessed 8 May 2006 < http://www.boston.com/business/articles/2006/04/27/wal_mart_japan_unit_q1_operating_loss_narrows/>.

"Wal-Mart to take control of Seiyu." *International Herald Tribune* 1-2 Oct. 2005: 17.

Yoneda. Personal Interview. 10 Apr. 2006.

Yoritsu. Personal Interview. 6 March 2006.