1. INTRODUCTION

The fate of overseas retailers who attempt to succeed in the Japanese market 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." With the "push" and "pull" for retailers to enter international arenas like Japan, whether in pursuit of high dollars or expanded growth, understanding the factors that lead to success or failure in the Japanese Market is essential.

Experience shows that about forty percent of foreign retailers flourish and are able to expand in Japan, while another forty percent withdraw from the market after a few unsuccessful years. The remaining twenty percent remain even though they are not earning a profit, hoping for eventual success. For large foreign firms specializing in discount retail, the battle for the loyalty of the Japanese consumer has recently become the focus of much attention. Japan is the world's second largest market after the United States and has become more accessible for foreign retailers due to a decade of deregulation and economic downturn in Japan ("A New Era" 14). Prior to these changes, however, the Japanese market was a very difficult one for foreign firms, especially big box retailers, to penetrate. Since these government reforms have taken effect, however, many foreign firms have set up operation in Japan, in hopes of success. While some have been forced to retreat after years of losses (e.g. Carrefour), others have flourished and expanded throughout the country (e.g. Toys "R" Us).

There are several commonly used terms to describe retailers in the Japanese market. A so-called "big-box" retailer is named after the size and shape of its stores as most locations are large, free standing, one-story rectangular buildings usually in suburban areas. This term most commonly refers to general merchandise retailers, also known as mass merchants, such as Wal-

Mart and Carrefour, but also includes specialty stores, sometimes known as "category killers," built in the big-box style such as The Home Depot or Toys "R" Us (Levy 43-50). The term "big-box store" is also synonymous with the terms supercenter and hypermarket. The term "foreign-affiliated large-scale retailer" and other versions of this are used throughout the paper in place of "big-box" retailer.

Until the 1990s it was impossible for foreign retailers to even enter the Japanese market, but due to gradual deregulation, globalization, changing lifestyles and consumer needs, and advances in technology and distribution systems, it is now possible to enter the market, invest, and have a reasonable chance of succeeding. In addition, extensive regulation of the Japanese retail market and overprotection of Japanese retailers resulted in financial and managerial difficulties for Japanese retailers because they were not pushed to be as competitive within the domestic market and not driven by a need to satisfy the consumer. These financial and managerial difficulties in part opened the way for new retailers to enter the Japanese market. To be clear, the domestic retail market was and still is competitive in terms of the number of stores and similarities between stores. But, as a result of protectionism, consumers' needs were often not met and Japanese retailers faced difficulties in finance and management, which led to an opening for globally competitive foreign retailers.

It is still too early to reach definitive conclusions about the future failure or success of Wal-Mart or even Costco in Japan because these companies are still experimenting and trying to find the right formula. Although these companies are struggling in the Japanese market, there are signs it may be possible to succeed as an American retailer in Japan, something that would have been impossible only twenty years ago because of regulations, competitiveness within the retail industry, convoluted distribution networks, and other restrictive conditions.

After years of unilateral pressure from the United States, with whom Japan had a huge trade surplus, to open its retail market to U.S. firms, Japan began to open the door a little. Japan's decision to apply for membership in the World Trade Organization (WTO), however, was a far more powerful incentive than pleasing the United States. Japan joined the WTO in 1995. In order to win the support for its application for membership from the United States and the countries of Western Europe (a necessity if a country wants to join the WTO), Japan had to liberalize its retail laws, which it did. The most important change was amendment by the Japanese Diet of the Large Scale Retail Stores Law in 1994. While answering the question "Can foreign big-box retailers succeed in Japan?" this paper will discuss the common qualities of successful companies and the mistakes that companies have made.

The purpose of this study and paper is to investigate and compare the experiences of four US companies – Wal-Mart, Carrefour, Costco, and Toys "R" Us – through the use of interviews and other research. I also analyze the history of the Japanese retailing system and how retail regulations impact foreign retailers, including effects of laws such as the Large-Scale Retail Store Law and Large-Scale Retail Store Location Law, on these firms.

Wal-Mart, the largest retailer in the world, in 2005 gained a controlling interest in the Japanese grocery store company Seiyu and is now running over 400 stores in Japan. Carrefour is the second largest retailer in the world and was in Japan from 2000 until 2004, when it decided to withdraw after years of losses. The experience of Costco in Japan has also been short; it has five stores and has been open in Japan since 1999. Toys "R" Us was the first of these to arrive in Japan in 1989, and although it does not fall in the "general merchandise" store format that the other stores follow, Toys "R" Us paved the way for these stores to enter the Japanese market, and the experience of Toys "R" Us Japan was, until recently, an important example of success.

Based on my interviews and other research data regarding global retailers in Japan, I investigate and compare the obstacles faced and currently being faced by these retailers. The main goal in my interviews and secondary research was to find out what the obstacles to success for foreign big-box retailers are in Japan.

In the beginning of my research and before I interviewed, I had a set of questions regarding global retailing to direct myself, which are discussed in detail in chapter 4 Research Methodology. For example, I wanted to know why Wal-Mart entered the Japanese market indirectly through control of Seiyu instead of opening up its own store under the Wal-Mart name. I also wanted to know why Carrefour, a successful global retailer, failed in Japan. Are there similarities in the experiences of Wal-Mart, Carrefour, Costco, and Toys "R" Us in Japan, and which of these stores have been the most successful? Finally, I wanted to find out what the Large-Scale Retail Store Law and the Large-Scale Retail Store Location Law are and how have they affected, or are they affecting, the foreign retailers in Japan.

The remainder of this paper is organized as follows. First, I review the current global retailing situation including the current global marketplace, a summary of countries where big box retailers have succeeded, and the role of the World Trade Organization (WTO) in global retailing. Second, I discuss the current Japanese retail environment, Japan's membership in the WTO, the Large-Scale Retail Laws, and the Japanese consumer. Third, I present the research methods I used to investigate how global retailers operate in the Japanese market. Next I compare and discuss the individual experiences and obstacles of Wal-Mart, Costco, Toys "R" Us, and Carrefour. Toys "R" Us is discussed as the example of success for a foreign affiliated retailer in Japan, while Carrefour is the example of failure. Also under failure, I analyze Wal-

Mart's recent withdrawal from South Korea and Germany. Finally, I discuss the findings of my research.

2. CURRENT GLOBAL RETAIL SITUATION

This section is a preliminary discussion of the global situation for retailers. It introduces background material about international retailing and gives a global viewpoint of retail in general. This chapter introduces some key players in global retail and discusses strategy. Chapter 3 narrows the discussion down to Japanese retail in general and defines key players in Japan. Following these two introductory chapters is the discussion of my research methodology and interviews and then the bulk of my research on Wal-Mart, Costco, Toys “R” Us, and Carrefour and their obstacles to success in Japan.

A. THE GLOBAL RETAIL MARKETPLACE

The current global retail marketplace is an estimated nine trillion dollars, and almost one-third of this is retail sales from the top 250 retailers of 2.84 trillion dollars for the 2004 fiscal year. The National Retailing Federation’s list of the “Global Powers of Retailing” for 2006 lists the top 250 global retailers based on sales in USD. Table 2-1 lists the top global retailers that operate in Japan and also includes Japanese retailers that are mentioned within this paper.

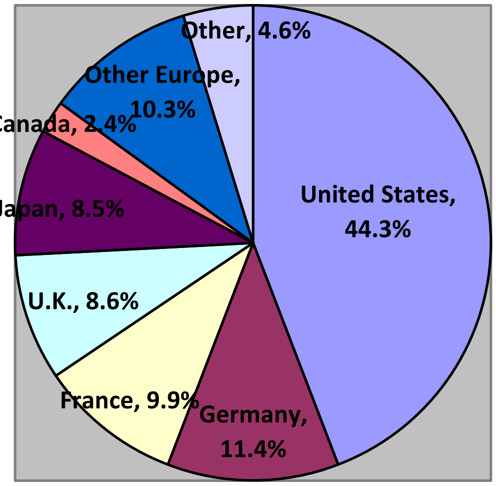
Table 2-1. Top Global Retailers that Operate in Japan

	Company	Country of Origin	2004 Retail Sales (US$mil)	Countries of Operation
1	**Wal-Mart Stores Inc.**	US	285,222	Argentina, Brazil, Canada, China, Costa Rica, El Salvador, Guatemala, Honduras, **Japan**, Mexico, Nicaragua, Puerto Rico, United Kingdom, US, [Germany and S. Korea in 2004]
2	**Carrefour S.A.**	France	89,568	Argentina, Belgium, Brazil, China, Colombia, Czech Rep., Dominican Rep., Egypt, France, French Polynesia, Greece, Guadeloupe, Indonesia, Italy, [**Japan** in 2004], Malaysia, Martinique, Mexico, Oman, Poland, Portugal, Qatar, Reunion, Romania, Saudi Arabia, Singapore, Slovakia, S. Korea, Spain, Switzerland, Taiwan, Thailand, Turkey, Tunisia, UAE
4	Metro AG	Germany	69,781	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep., Denmark, France, Germany, Greece, Hungary, India, Italy, **Japan**, Luxembourg, Moldova, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, Ukraine, UK, Vietnam
5	Tesco plc	UK	62,505	China, Czech Rep., Hungary, **Japan**, Rep. of Ireland, Malaysia, Poland, Slovakia, S. Korea, Taiwan, Thailand, Turkey, UK
7	**Costco Wholesale Corp.**	US	47,146	Canada, **Japan**, S. Korea, Mexico, Puerto Rico, Taiwan, UK, US
18	AEON Co. Ltd.	Japan	36,345	Canada, China, Hong Kong SAR, **Japan**, Malaysia, Singapore, S. Korea, Taiwan, Thailand, UK, US
58	**Toys "R" Us Inc.**	US	11,100	Australia, Austria, Bahrain, Canada, Denmark, Egypt, France, Germany, Hong Kong SAR, Indonesia, Israel, **Japan**, Kuwait, Malaysia, Mauritius, Netherlands, Norway, Oman, Puerto Rico, Portugal, Qatar, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Turkey, UAE, UK, US
73	The Seiyu, Ltd.	Japan	9,437	**Japan**, Singapore

Source: STORES Global Powers of Retailing 2006

Notably, Wal-Mart is the world's largest retailer in terms of sales, and Wal-Mart's sales for fiscal year 2004 were three times that of Carrefour, the second largest global retailer ("2006 Global" G10). Costco has improved its ranking on the list from the seventh to the ninth position, surpassing Target of the U.S. and Ahold of the Netherlands ("2006 Global" G11). The "Global Powers of Retailing" report also said the largest global retailers are still increasing their market share, and that the top ten companies, five of which have locations in Japan, had combined sales accounting for 28.8 percent of the top 250 companies' sales ("2006 Global" G10). The top ten global retailers in order are Wal-Mart, Carrefour, The Home Depot, Metro, Tesco, Kroger, Costco, Target, Ahold, and Aldi (G16). Figure 2-1 shows the top 250 retailers by sales.

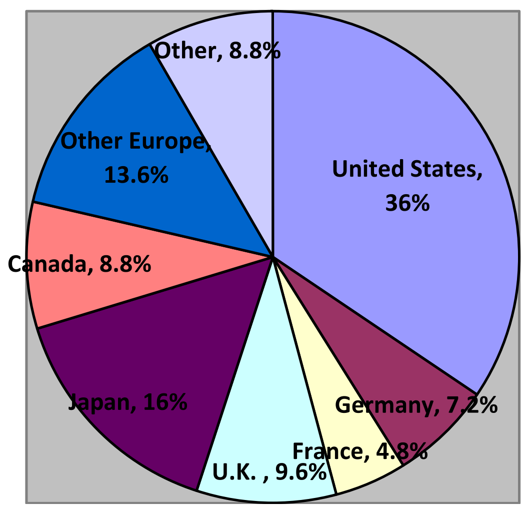
Figure 2-1. Top 250 Retailers, by Sales



Source: STORES Global Powers of Retailing 2006

Figure 2-2 shows the top 250 retailers by country of origin.

Figure 2-2. Top 250 Retailers, by Country of Origin



Source: STORES Global Powers of Retailing 2006

Forty of the top 250 are from Japan, although most are small in size and fall toward the bottom of the list. Japan has 8.5 percent of the sales from the top 250 retailers, compared with 44.3 percent from the U.S. and 8.6 from the U.K. (G12). The report says that "despite Japan's large and well-developed retail sector, most of these companies will not be able to rely on their depressed domestic retail market for continued growth" (G12). On the other hand, the report says “a big increase in exports gave the Japanese economy a much needed lift in 2004, leading to pick-up in consumer spending” (G10). In fact, within the past year the Japanese economy has continued to pick up, savings are decreasing, and consumer spending is on the rise, making Japan a serious market of interest for foreign retailers.

In terms of store format, the dominant formats for the top retailers are related to food. In fact, nine of the top ten sell food (G12). These store formats include “supermarkets, hypermarkets/supercenters, hard discount stores, cash and carry/warehouse clubs, and convenience stores” and are discussed in Table 2-2 Retail Formats (G12).

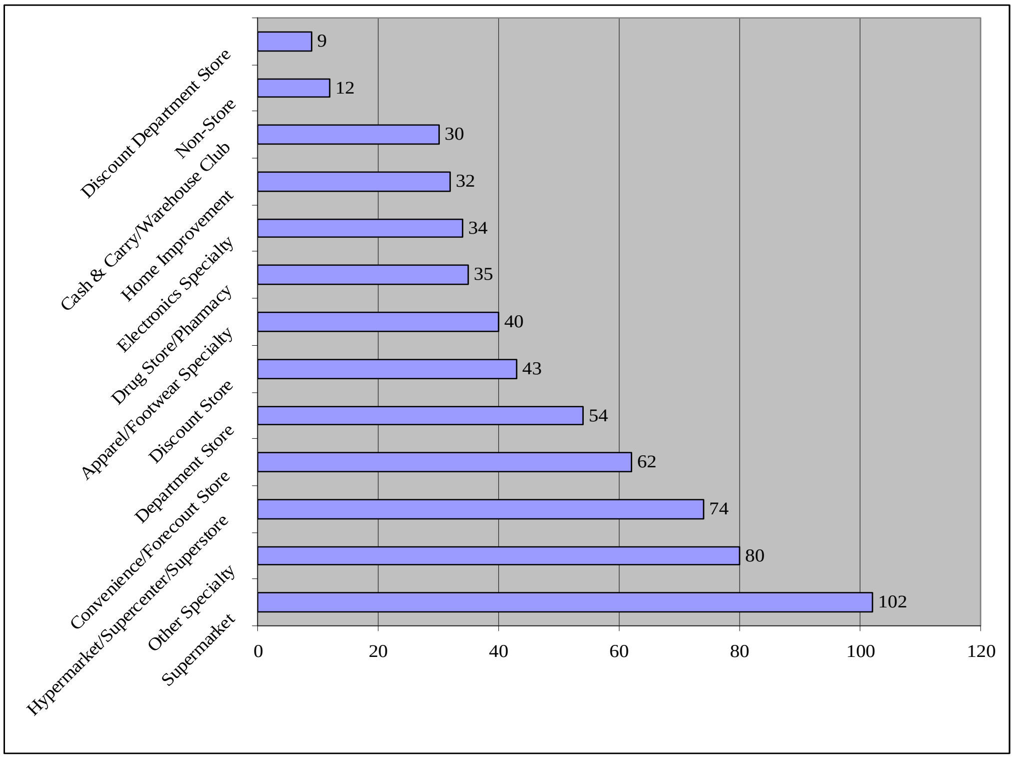
Table 2-2. Retail Formats

Retail Format	Description	Example of Retailers with the Format
Supermarket	Sells groceries and household goods	Seiyu, Kroger, Aldi
Hypermarket/ supercenter	Combination supermarket and department store; also referred to as a “big-box” store	Carrefour (hypermarket), Wal-Mart (supercenter)
Hard discount stores	Sells goods at a lower price than other comparable retailers; includes discount stores and discount department stores; “hard discount” is European term for discount supermarket	Dollar Tree, Carrefour, Target, Wal-Mart, Aldi (hard discount)
Cash and carry/ warehouse club	Wholesaler that sells goods directly to the consumer who pays the invoice in cash and carries the goods away himself; warehouse clubs charge a membership fee	Costco, Metro, Sam’s Club
Convenience store	Small store that sells any variety of convenience products	7-Eleven (Seven & I Holdings), Lawson, Circle K

Source: STORES Global Powers of Retailing 2006

The report says “hypermarkets/supercenters remain a leading format with considerable potential in emerging economies” (G12). This is the format of both Wal-Mart and Carrefour. Also, discount stores and conveniences stores are gaining global popularity, and these two formats are extremely common in Japan. Figure 2-3, below, shows the number of stores from the top 250 global retailers that operate with each retail format. The popularity of store format in Japan is extremely important to the success of Wal-Mart/Seiyu. The Japanese consumer has fluctuated on her taste for supercenters; some articles say it is well-liked while others say it has lost popularity (Rowley “Can Wal-Mart” 18; Kageyama 1). Competition from other store formats, especially convenience stores and small-scale discount stores has a sizeable impact on Wal-Mart, although not as strong as other supermarkets. The format of most Seiyu stores is supermarket, and as it will be discussed later, Wal-Mart is attempting to shift some of these over to supercenters, because of its success with this type of format. Carrefour’s format in Japan was hypermarket, but these stores were ultimately unsuccessful. Costco as a warehouse club provides something unique to the Japanese market and Toys “R” Us, which is number fifty-eight on the global retailer list, is a specialty format (G20).

Figure 2-3. Retail Formats Operated by the Top 250 Retailers



Source: STORES Global Powers of Retailing 2006

Finally, globalization is “accelerating” every year and impacting the global retailers to a greater extent (G13). The global retailers, for fiscal year 2004, had operations in an average of 5.5 countries and a combined total of 188 different countries (G13). “Although international sales are becoming increasingly important to many large retailers’ growth strategies, foreign operations still generate a relatively small share of overall sales and profits for most of these companies” (G13). More than fifty percent of U.S.-based retailers and sixty percent of Japanese retailers only operate in their home country. On the other hand, 44 companies in the report have operations in at least ten countries, Carrefour being the second-most international retailer with stores in 35 countries in fiscal year 2004 (G13). French and German retailers along with retailers from small markets are the most “globally ambitious,” in that they most need to search for foreign markets because their home markets are so small. (G13).

Narrowing down from the current global retail situation, the next section discusses the countries in which Wal-Mart and Carrefour in particular have been successful. A summary of these countries’ common attributes is useful for comparison with Japan. After that section is one on the role of the World Trade Organization (WTO) in facilitating direct foreign investment in the global retail sector. This broad discussion of the role the WTO plays in facilitating foreign direct investment (FDI) on a global retail level serves as an introduction to a later discussion on the WTO’s specific role in Japan and the liberalization of its retail sector. The WTO is important for a discussion of the current global retailing scene as membership in the WTO affects FDI in a country’s retail sector. Japan’s membership in the WTO has greatly impacted the ability of foreign retailers to invest in the country.

Review of the Literature: Retail Internationalization Theories

Although the main focus of my research is about the interviews and the obstacles to success for Wal-Mart, Carrefour, Costco, and Toys "R" Us, the literature on retail internationalization strategies explain the reasons these companies decided to go abroad in the first place. It explains their motivation in wanting to be successful in foreign markets like Japan and what options are available to each company that decides to internationalize.

In this age of globalization, "all major retailers," especially those that are U.S. based, "may have to expand their operation to the global market due to its growth potential and heavy competition in the U.S. market" says an analysis from the *Journal of American Academy of Business, Cambridge* (Moon 219). U.S. firms such as Wal-Mart have a global strategy with four basic "strategic options: market penetration, product expansion, market expansion, and diversification" (219). Table 1-1 defines these options and gives an example for each.

Table 2-3. Strategic Options for Retailers

Option	*Description*	*Example*
Market penetration	Retailer expands with existing format (e.g. hypermarket)	Home Depot in the U.S.
Product expansion	Retailer develops new format	Wal-Mart changed from discount store to hypermarket (added groceries)
Market expansion	Retailer opens store in new market e.g. new city or new country	Wal-Mart opens hypermarket in Japan
Diversification	Retailer opens store with new format in new market	Wal-Mart opens grocery only store in Japan

Source: (Moon 219-222)

The market expansion strategy can be domestic or a combination of domestic and international expansion. Wal-Mart is an example of a company that has chosen domestic and international expansion. In the beginning of Wal-Mart's expansion, it stuck with three things it believed were essential to its success in a foreign market: the name Wal-Mart or Sam's Club, its Everyday Low Prices (EDLP), and its "high ethical standards" (221). However, as this paper will show, Wal-

Mart has struggled with one or more of these “ingredients” in many foreign countries, especially Japan.

Wal-Mart and other large-scale retailers like Carrefour are finding that their growth has slowed in the domestic market and many have chosen to earn more profits and to please shareholders by expanding their business abroad. Roy Larke says the first “push” for retailers to internationalize is that many companies have reached a “scale and a scope of operations that have outgrown their original domestic markets,” and they choose internationalization because they want to maintain, or “through pressure from investors are required to maintain,” high growth levels (107). The second “push” is for specialty retailers like Toys “R” Us who can be “better exploited” in several markets instead of just one and who can easily adapt to different cultures (107). The third and final factor, which Larke describes as a “pull,” is simply the business opportunity of international expansion, and this factor is extremely important for retailers’ expansion into Asia, in which Japan is the “only large, industrialized economy” (107).

Retailers are attracted in particular to Asia for a series of reasons, the most alluring of which is that Asia has the highest “population of consumers” compared with any other continent (108). Other factors that make Asia an attractive retail market are “the existence of consumer goods manufacturing industries,” which global retailers already utilize, well developed business infrastructure, highly educated and trained populations in many areas, and an openness to “capitalist trade practices” (108).

B. COUNTRIES WHERE BIG BOX GLOBAL RETAILERS HAVE SUCCEEDED AND WHY

In the past few decades Wal-Mart has saturated much of the U.S. market and has turned its focus to expanding internationally. In 2004, Wal-Mart International was one-fifth of Wal-

Mart's revenue and one-fifth of its operating income (Upbin 2). Wal-Mart has been particularly successful in Mexico, Canada, and the United Kingdom. In 1999, Wal-Mart bought control of the U.K.'s third largest grocery chain, ASDA, which has now become the largest and most profitable venture for Wal-Mart International ("ASDA"). China's fast growing economy also caught the sights of Wal-Mart International and Wal-Mart opened its first store there in 1996. In October 2006, Wal-Mart announced its plan to invest one billion USD to expand its operations in China ("Wal-Mart 'eyes China'" 1).

In a 2005 case study by the Japan Consumer Marketing Research Institute titled "Carrefour: Can Carrefour Succeed in Japan?" the author summarizes five common attributes of the countries in which Carrefour has been successful.

> (1) Small-scale retail rationalization and reorganization has not progressed;
>
> (2) Large-scale chain supermarkets are absent from the market;
>
> (3) Potential competitors that carry specialty items like household electrical appliances and clothing are absent from the market;
>
> (4) Large amounts of retail space can be attained at low cost; and
>
> (5) Laws and regulations governing large-scale retail operations are "developer friendly." (Goda 7)

Goda goes on to say that Carrefour's existing strategy works well for developing countries, but has never worked in a developed country outside of France. An addition to the five criteria above, Carrefour's success in developing countries rests on its ability to push out the small-scale local retailers and to attract consumers from both the city centers and suburban areas to its store (7-8).

An article from the Nanyang Business School in Singapore says the basis of Carrefour's expansion in developing markets is its ability to offer the consumer "choice, self-service, free parking and low prices" (Kamath 481). Carrefour had to adapt to "consumer spending patterns" that are different from European spending patterns when it first opened stores in developing countries (482). It was one of Carrefour's main goals to expand in developing countries and in Asia in 1997, where it hoped it could be successful (483). An article from the *International Journal of Retail and Distribution Management* says Carrefour's unique "hypermarket" format is "well-suited to the start-up and development phase in developing countries" (Colla 107). Colla and Dupius contrast Carrefour's strengths in distribution, management, and dealing with local suppliers with Wal-Mart's strengths in technology, just-in-time stocking, and offering everyday low prices (107-8). Colla and Dupius say the different strengths of the two giant retailers have helped determine the countries in which each has been successful. They conclude by suggesting that the two separate business models of Carrefour and Wal-Mart do not necessary need to "converge" and that different business models can succeed in the global marketplace (111). At the time the article was written, it seemed that Carrefour and Wal-Mart would each find its own niche in a different type of market, and some recent developments, such as Carrefour's failure in Japan and Wal-Mart success there thus far, illustrate this. However, other recent developments, such as Carrefour and Wal-Mart's failure in South Korea, discussed in section 8B, suggest they have many of the same problems adjusting to foreign markets.

C. ROLE OF THE WORLD TRADE ORGANIZATION IN FACILITATING DIRECT FOREIGN INVESTMENT IN THE RETAIL SECTOR

The World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT) in 1995 as the global, or multilateral, "negotiating forum" dealing with the "rules of trade between nations" (*World*). As world trade has increased over the decades since World War II, so has GATT, and after that, the WTO's role in this global trade. GATT's first negotiating rounds dealt mainly with lowering tariffs while the later rounds included issues such as "non-tariff measures" and anti-dumping (*World*). The goal of the WTO is to promote and assist freer, fairer and more predictable multilateral trade by acting out these official functions: "administering WTO trade agreements, forum for trade negotiations, handling trade disputes, monitoring national trade policies, technical assistance and training for developing countries, [and] cooperation with other international organizations" (*World* 2).

Trade is closely linked with investment and consequently the WTO also deals with facilitating and coordinating foreign investment. The WTO first began officially playing a role in the relationship between trade and investment relations after the 1996 Ministerial Conference in Singapore. The so-called "Singapore issues" were trade and investment, competition policy, transparency in government purchases, and "trade facilitation" (*World* 72). The issue of trade and investment and their interrelated importance became apparent at the 1996 conference and still is extremely relevant considering one-third of world trade in goods and services ($6.1 trillion total trade in 1995) is done within companies, for example trade between the company's subsidiaries in different countries or trade between a subsidiary and its headquarters (72). This issue of trade and investment was not part of the original GATT but has become increasingly important as shown by the General Agreement on Trade in Services (GATS) (1995) which addresses foreign investment in host countries and the Trade-Related Investment Measures (TRIMs) Agreement. The TRIMs Agreement prohibits trade-related investment measures, such as "local content requirements" and trade balancing rules designed to protect the domestic market, and states that “investors’ right to use imported goods as inputs should not depend on their export performance” (72).

In summary, the WTO plays an important role in the international retail sector through facilitating direct foreign investment by both encouraging and regulating free and fair trade between member countries. The WTO recognizes the strong connection between global trade and foreign investment, and GATS, as a part of the WTO as well as the TRIMs Agreement regulates this foreign investment and makes the process easier. Both foreign investment and the help of the WTO in promoting multilateral trade have been vital to foreign retailers in gaining entry and opening up the Japanese market. The influence of the WTO on Japan’s retail sector will be discussed in section 3-B.

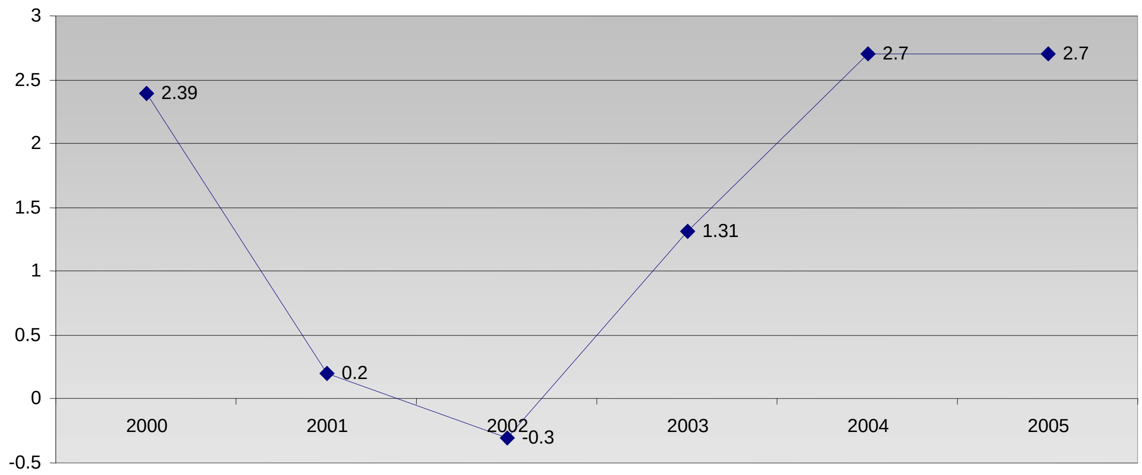
3. JAPANESE RETAIL

Japan's economy is finally recovering from a fifteen year period of economic downturn characterized by stagnant growth and deflation that began when the economic "bubble" burst in the beginning of the 1990s. Increased investment by Japanese businesses and increased consumer spending are both helping economic recovery. Japanese businesses are now able to invest more than they have in the past fifteen years due to government and business efforts to reduce the number of non-performing loans that have been burdening companies and banks since the end of the bubble economy in 1992.

The recent increase in consumer spending is influenced by the decline in Japan's characteristically high personal savings rate. In other words, Japanese consumers are spending more and saving less. At the same time wage rates and employment rates are on the rise ("2006 Global" G39). This has meant "retail sales are rising faster than GDP" (G39).

To illustrate this trend, first Figure 3-1 shows annual GDP growth rate for Japan from 2000 through 2005. GDP growth has recovered from negative growth shown in 2002 and has leveled off at 2.7 in 2005. Japan's GDP growth rate for 2006 is estimated at 2.3 pct according to the International Monetary Fund (IMF) (Lipes 1).

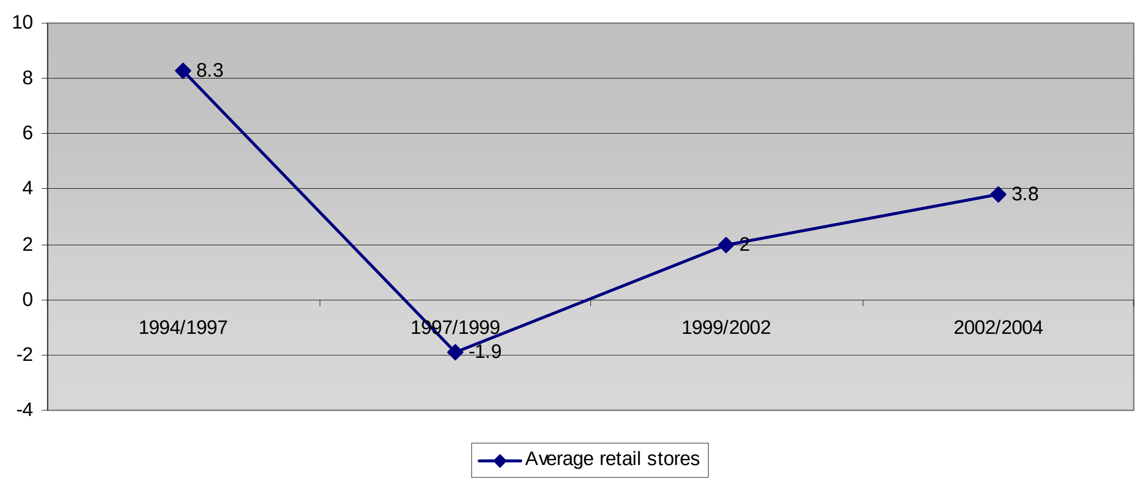
Figure 3-1. Japanese GDP growth (annual %)



Source: World Bank World Development Indicators

Second, Figure 3-2 shows Japanese retail stores' annual sales average (for all types of store formats) in rate of change for four periods. In comparison, the percent change in growth for average retail sales from 2002 to 2004 is 3.8 while the GDP annual growth rate was -0.3 in 2002 and 2.7 in 2004.

Figure 3-2. Annual Sales per Retail Store (rate of change %)



Source: Japan's Ministry of Economy, Trade and Industry (METI), Census of Commerce 2004

For the second year in a row, 2006 retail sales in Japan have increased, this time by 0.2 percent to 129.77 trillion yen ("Japan's retail sales" 1). The increase in fuel sales caused by higher oil prices is the main reason for the increased retail sales.

At the same time, large-scale supermarket and department store sales decreased in 2006 by 0.9 percent overall for the ninth year in a row (1). Department store sales are declining faster than supermarket sales while convenience store sales are increasing. The almost decade-long decline in department store sales may be a good sign for large-scale retailers like Wal-Mart, Costco, and Toys "R" Us because this means customers are not shopping at expensive department stores as much as they used to and the economic upturn shows that the customers are beginning to spend more money. It may also mean that the popularity of department stores is declining in Japan while the popularity of supercenters may be increasing ("Retail Sector" 4). The popularity of shopping centers is definitely on the rise (4).

Table 3-1 lists the total annual retail sales data that is available from the past decade and the number of retail stores in each of those years. It also shows the sales per store.

Table 3-1. Total Annual Sales, Number of Retail Stores, and Average Retail Store Sales

	1997	**1999**	**2002**	**2004**
Total annual sales (in trillions of yen)	147,743	143,833	135,109	133,279
Number of retail stores (in thousands)	1,420	1,407	1,300	1,238
Per store sales (in millions of yen)	104	102	104	108

Source: Japan's Ministry of Economy, Trade and Industry, Census of Commerce 2004; Japan Retail Fund Investment Corp. 2006

The number of retail stores has been on the decline since it peaked in the early 1980s ("Retail Sector" 2). The table 3-1 shows that total annual sales have also declined in this period, most likely due to the economic downturn, while sales per store remained fairly level, changing by only 2 million yen at a time. The 2006 total sales data of 129,770 trillion yen cited above follows in the overall decade of decline, according to the Japanese Ministry of Economy, Trade and Industry (METI). METI replaced MITI (Ministry of International Trade and Industry) in 2001 as a reorganized government ministry. MITI was the most powerful ministry within the government during its reign which began after World War II, and is credited for almost single-handedly orchestrating Japan's era of high economic growth that lasted from the 1950s to the 1980s. METI, as cited by the Japan Retail Fund Investment Corporation, says that retail sales declined between 1997 and 1999 for the first time after the era of high post-war economic growth and this has in turn led to consolidation in the retail sector ("Retail Sector" 4). Consolidation has resulted because the decline in retail sales coupled with intense competition forced many retailers to sell out to "larger, more efficient operators, including large global retailers" (4). Now these larger, more efficient retailers are in tougher competition with each other (4).

Today in Japan 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. 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.

In order to better understand the Japanese retail environment, the next chapter includes a brief history of Japanese retailing, a discussion of the influence of Japan's membership in the

WTO, history of recent changes in Japanese retail law, and finally an introduction to the Japanese consumer. As one might expect, changes in the history of Japanese retailing have impacted the laws regulating the retail sector and increases or decreases in retailing seem to be parallel with deregulation. Japan's membership in the WTO and the presence of non-trade barriers has also impacted the domestic retail laws and improved the ability of foreign-affiliated companies to have a retail business in Japan. Lastly, an understanding of Japanese culture and the Japanese consumer is something many of the foreign-affiliated retailers have lacked, which has caused them to make costly mistakes or even leave the market. This consumer-based knowledge is essential for a discussion of the decisions made and being made by the big-box retailers in Japan and an understanding of why some have failed.

A. HISTORY OF RETAILING

For most of its history, Japanese retail was dominated by so-called "mom-and-pop" stores. Japanese people shopped locally, frequently, and at many small shops since each shop specialized in certain products, i.e. fish from the fish shop, vegetables from the vegetable shop, shoes from the shoe store, etc. The government traditionally tried to protect these mom-and-pop stores from competition with various regulations allowing for neighborhood cartels. The dominance of these mom-and-pop stores declined as small discount stores such as the 100 yen store and convenience stores like 7-11 took their place during the second half of the twentieth century.

The emergence and growth of large, general merchandise retailers such as department stores and supermarkets was slower than that of the smaller convenience stores. Department stores increased their market share from 7.4 to 8.4 percent from 1980 to 1988 and supermarkets from 6.5 to 7.3 percent during the same period ("Trade" 1). The presence of high quality and high priced department stores, however, is still a notable feature in Japanese retail.

In terms of store location, Japan's stores have been traditionally in city centers based around train stations. Public transportation through mass transit in the form of trains is the primary mode of mass movement in Japan, with thousands of potential consumers passing by or moving through train stations daily. Parking is not readily available in these areas, and shoppers come often to these stores to buy a few items per trip. Also, space is and has been extremely limited in city centers and in train stations, which is why stores are traditionally small and multistory.

In the 1980s some Japanese retailers began wanting to build larger stores, but since the city centers were crowded and the government was trying to protect small store owners in these city centers, they faced resistance from the government and thus development spread to the suburban areas. Now it seems the government is no longer concerned with protecting mom-and-pop operations and has become engaged in efforts to bring the large suburban retailers back into the dying city centers. More about government deregulation follows in section 3D.

B. INFLUENCE OF JAPAN'S MEMBERSHIP IN THE WTO

As mentioned above, Japan signed the GATT in 1955, officially joined in 1956, and therefore became a member of the WTO in 1995 when it came into being. Japan, however, did not fully embrace GATT's dispute resolution mechanisms but in recent years has shown eagerness to benefit from WTO membership to resolve disputes with its trading partners (Dobson 1).

The U. S. economy relies on growth in its domestic activity, but Japan depends on foreign trade for much of its prosperity. As the second-largest economy in the world, and due to this dependence on foreign trade, Japan now has a strong interest in having all nations conform their trading practices to WTO rules and policies to maintain a fair playing field for foreign retailers. For this reason, among others, the WTO is most important to countries like Japan. Because of the size of Japan's domestic market, and the United States' interest in taking advantage of that market, the U. S. has pressed the Japanese government hard to liberalize its trade and investment policies and does not hesitate to invoke WTO regulations to loosen up the Japanese market for U.S. firms. The United States, for example, used the WTO dispute resolution mechanism to force Japan to open its domestic market to U.S.-made photographic film and paper in the Kodak-Fuji dispute in the 1990s. Now Japan, seeing the advantages, is pressing the WTO to make other foreign countries follow the WTO trading practices.

The WTO's dispute settlement mechanism evolved out of the ineffective means used under the GATT for settling disagreements among members ("The Dispute" 1). Under the GATT, either disputant could block each stage of the process. The new WTO dispute resolution procedure is much more effective. The WTO designed the dispute settlement mechanism to settle conflicts over non-tariff barriers to trade, including government policies and regulations that make it more difficult for foreign competitors to conduct a successful business in a country. In the early years of the GATT the focus was on tariff barriers to trade in goods. In recent years, WTO member states have largely eliminated tariff barriers. The focus now is on non-tariff trade barriers. In the new regime, Japan's laws and regulations that impeded the provision of retail services by large discount foreign stores are a prime target for trade liberalization initiatives by the United States, Canada and the countries of the European Union. Since 1995 Japan has found it increasingly difficult to protect domestic industries from open international competition (1). Japan as a member of the core WTO membership—along with Canada, the European Union and the United States—is under pressure to be a model of trade liberalization for other member states, including removal of barriers to foreign direct investment.

C. CHANGES IN JAPANESE LAW SINCE THE 1970s

Two of my research questions at the start of this study were: why did Japan enact the Large-Scale Retail Store Law and why did Japan later replace it with the Large-Scale Retail Store Location Law? I asked these questions at my three interviews, which are discussed more in section 4, to see what each store manager knew about the Large-Scale Retail Store Laws and combined the information I learned from them with my own research. First I will discuss the backdrop for these legal changes in the Japanese retail industry.

Regulation and Deregulation

It was not until the 1980s that foreign retailers began entering the Japanese market in large numbers (“A New Era” 14). Traditional Japanese businesses practices and prohibitive laws made it hard for any foreign retailer prior to this period. Although legal restrictions were not the only reason U.S. retailers did not open stores in Japan before the 1980s, it was the primary issue that the two governments (the U.S. and Japan) focused on changing and modernizing as globalization began to increasingly influence retailing.

The Large-Scale Retail Store Law, passed in 1973 by the Liberal Democratic Party (LDP), aimed at protecting Japan’s traditional small retailers and mom-and-pop stores. Under the Large-Scale Retail Store Law, small retailers and mom-and-pop businesses were officially allowed “to obstruct the expansion of supermarkets and department and chain stores,” and unofficially allowed to create cartels in their neighborhoods and thus raise prices (Katz 82).

The U.S. government took a similar measure in 1936 with the Robinson-Patman Act, which grew out of the Clayton Act in 1914 and prohibited price discrimination (Clark 1). The

Robinson-Patman Act was designed to protect small retailers from large chains by requiring manufacturers to sell to all retailers at the same price to prevent sellers from giving large store discounts (2).

By the 1980s the U.S. was putting pressure on Japan to reform the Large-Scale Retail Store Law in order to strengthen the power of consumers and large retailers within the country. The case of Toys "R" Us best illustrates this situation, as they were barred from opening stores in Japan under this law. Pressure from the U.S. eventually provided an opportunity for the Ministry of International Trade and Industry (MITI) to reform the law which helped not only Toys "R" Us gain entrance in 1989, but also provided opportunities for Japan's large retailers to expand within the country (Katz 276).

Further deregulation has occurred as a result of these 1989 talks between Japan and the U.S., referred to as the Structural Impediments Initiative (SII) ("A New Era" 14). Beginning in May 1990, a series of specific changes to the Large-Scale Retail Store Law allowed retailers trying to open large stores to shorten the previous "time-consuming and painstaking 'adjustment' process" with the local retailers, to "extend their closing times," and to "reduce the minimum number of required holidays" (14). After these "decontrols" were put into place, a new Large-Scale Retail Store Location Law came into effect in June 2000 (14). This law marks a change in attitude and policy towards the large retailers from one of regulation to that of "coexistence" ("Retail Sector" 1). The government changed direction and accepted the existence of these large stores, becoming more occupied with how they relate to their environment. More amendments are set to begin in 2007 and "are intended to decelerate the development of large-scale commercial centers in suburban areas and preserve and promote the efficient use of urban infrastructure" ("Retail Sector" 1).

However, the popularity of large-scale shopping centers is on the rise and this trend is likely to continue despite these new regulations (1). All these changes have made it significantly easier for foreign firms to enter the Japanese market, and the firms have done just that. Since 1980, more than 79 foreign firms have come to Japan to try and convince the more than 100 million consumers holding more than 1,400 trillion yen in financial assets to shop with them ("A New Era" 14-15).

D. THE JAPANESE CONSUMER

The Japanese consumer is uniquely different from the Western consumer, and knowledge of the differences in shopping behaviors is essential for the success of foreign big-box retailers. This knowledge is essential because foreign retailers must alter their marketing strategy, store layout, pricing system, and general business practices to fit the Japanese market if they hope to succeed. Retailers that ignore the differences in Japanese consumer behavior are doomed to failure, as has happened with retailers like Carrefour. Table 3-2 gives an overview of basic Japanese consumer statistics.

Table 3-2. Consumer Statistics

Population 2005 (World Development Indicators)	128 million
Population growth (CIA World Factbook)	0.02%
GDP per capita (PPP) 2006 est. (CIA)	$33,100
Household income or consumption by percentage share (CIA)	lowest 10%: 4.8% highest 10%: 21.7% (1993)
Nominal consumer spending 2006*	288.552 trillion yen

Sources: World Bank World Development Indicators, 2006; CIA World Factbook, 2006; *Asahi shinbun "Manabu Hara" 2007

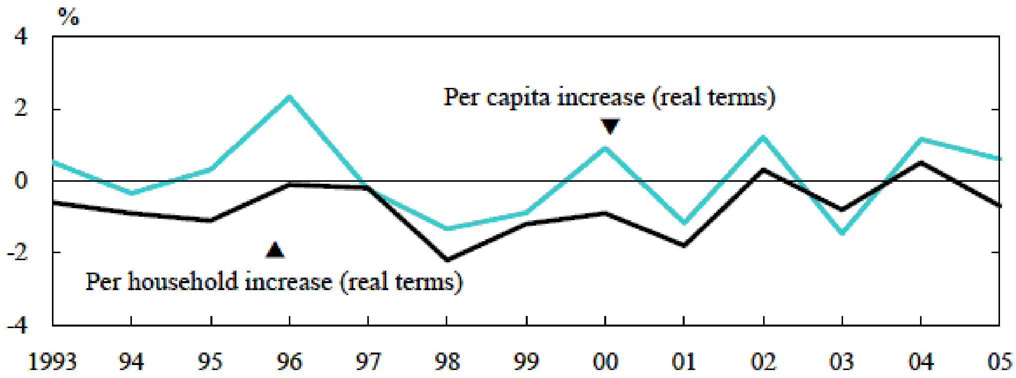
The Japanese consumer is typically associated with preference for quality over quantity, unlike the U.S. consumers. Ian Rowley, a *Business Week* consultant based in Tokyo, stated that

"Japanese customers don't seem as motivated by rock-bottom prices as Americans" (Rowley "Japan Isn't" 1). In what is described as a "love-hate relationship with discounting," the Japanese consumers associate low prices with low quality and are sometimes even "suspicious" of unheard-of low prices such as 1,000 yen jeans (Rowley "Wal-Mart's Waiting" 2; "Japan Isn't" 1). This behavior can be attributed to the tradition of mom-and-pop stores and expensive department stores, in that the higher quality items were often found in the expensive stores ("Wal-Mart's Waiting" 2).

During the economic downturn of the 1990s, the Japanese consumer became more price-conscious and less averse to discounting than in the past. This period also saw an increase in discount stores such as the 100 yen shop. Due to recent improvements in the economy, Japanese consumers are spending more money than they did during the economic downturn of the 1990s.

Figure 3-3, below, from the "Statistical Handbook of Japan" and created by the Ministry of Internal Affairs and Communication's Statistics Bureau shows the annual changes in consumption expenditure from 1993 to 2005 for all households. Monthly consumption expenditure for 2005 averaged 300,903 yen per household (all households), which was a decrease of 1.1 percent from 2004 ("Household Finances" 154). Consumption expenditure has been declining in the past few years because smaller bonuses have caused incomes to fall. However, 2002 marked the first time consumption expenditure increased (by 0.3 percent) since 1992, which showed economic recovery (154).

Figure 3-3. Annual Changes in Japan's Consumption Expenditure

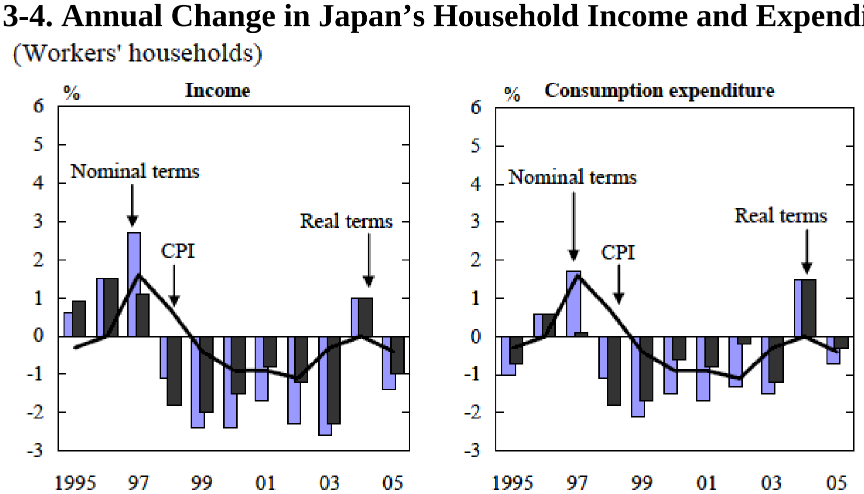


Source: Figure created by Japan Statistics Bureau, MIC ("Household Finances" 154).

Figure 3-4, below, illustrates the annual rate of increase (in percent) for disposable income and consumption expenditure of workers' households. Average monthly income for workers' households in 2005 was 522,629 yen, which was a decline by 1.4 percent in nominal terms and 1.0 percent in real terms from 2004 (155).

Also in Figure 3-4 are the changes in the Consumer Price Index. This figure shows that income is positively related to consumption expenditure. Both figures, income and consumption, fell after 1997 due to a decline in the head of household's "extra income, bonuses and regular income as a result of the sluggish economy," likely connected to the Asian financial crisis of 1997. Income and consumption remained in negative growth until 2004 (155).

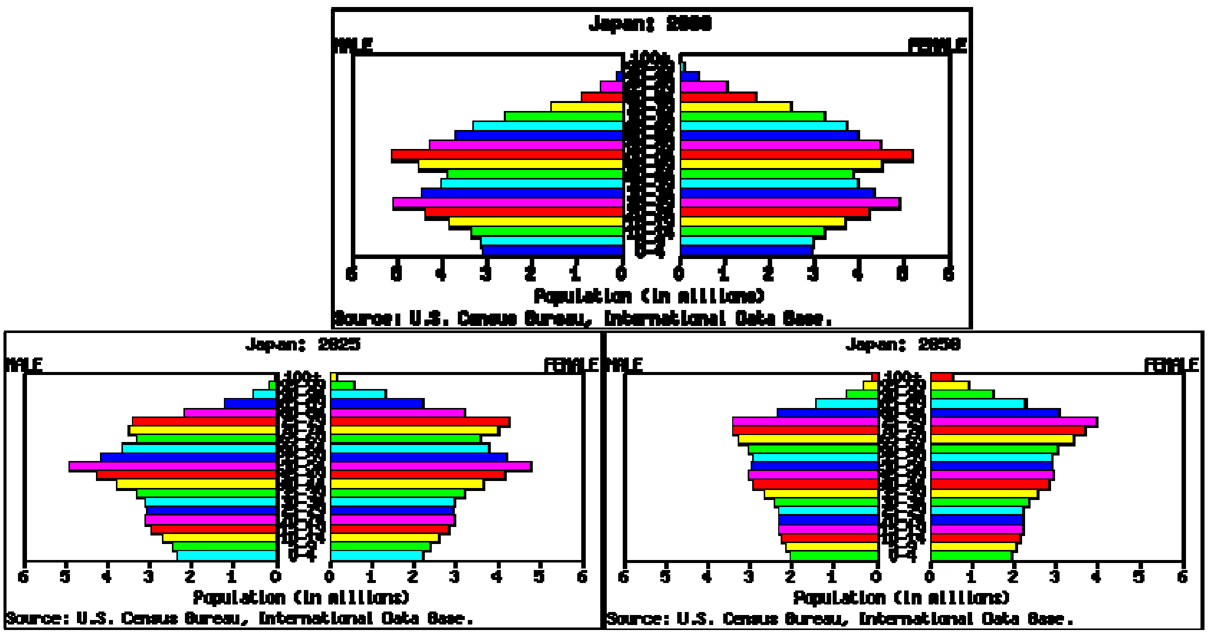
Figure 3-4. Annual Change in Japan's Household Income and Expenditure



Source: Figure created by Japan Statistics Bureau, MIC ("Household Finances" 156)

Japan is also going to be facing a demographic crisis in the near future that will surely impact all facets of the Japanese economy including the foreign-affiliated retailers. This demographic crisis is the aging population and decline in birth rate that can be seen in Figure 3-5. These population pyramids illustrate the predicted increase in 2025 and 2050 in the number of seventy-plus Japanese and the disproportionate decline in births.

Figure 3-5. Japan's Population Pyramid for 2000, 2025, and 2050



Source: Figures created by U.S. Census Bureau ("Population Pyramid" 1)

The potential impact of this demographic crisis on the global retailers could be detrimental or beneficial depending on how the company handles it. For example, if Toys "R" Us is relying on the new Babies "R" Us store format to keep the company afloat in Japan and then the market for baby goods declines sharply, the company may be forced to leave Japan. In the case of Wal-Mart/Seiyu, they target customers of all ages so they could focus on marketing to the baby boomers if the demographic crisis affects their sales. For example, the convenience store chain Lawson is currently targeting women of the baby boomer generation to increase their market share, and Toys "R" Us is shifting some of its marketing to baby boomers by selling high-end toys such as *Gojira* (Godzilla) figurines. In my interview with the Marketing Manager of Costco in Amagasaki, Hyogo, he told me young families are Costco Japan's current target market (Sakai).

One possible solution to the problem of having a young customer base is for Costco to focus efforts on creating customer loyalty now so when the current customers get older they are still loyal to the company. Costco has already taken measures to create customer loyalty with the use of a membership policy.

4. RESEARCH METHODOLOGY

Study Design

In this study, the primary methodology used for research, other than the use of literature above, was the in-person interview. In addition, several major sources were utilized to support and augment the interviewing, including personal experience and observation while in Japan, government data, news articles, financial reports, etcetera. I used both interviews and secondary research data in an attempt to answer the major research question: What are the obstacles to success for foreign-affiliated large-scale retailers in Japan?

To begin, I came up with a set of questions to guide my research. These questions are:

- Wal-Mart has purchased a controlling interest in Seiyu instead of directly entering the market. Why does Wal-Mart remain invisible in Japan by not using its own name?
- How successful has Wal-Mart been in remaking Seiyu?
- Who is the Japanese consumer?
- Costco has five stores in Japan. As opposed to Wal-Mart, why does Costco prefer to be visible and operate under its own name?
- Is Costco more successful than Seiyu (Wal-Mart) in making its Japan venture profitable?
- Toys “R” Us was the first large foreign retail store to enter the Japanese market. How successful has Toys “R” Us been in Japan?
- Carrefour is a French-owned company and second-largest retailer in the world. Why did Carrefour fail in Japan?
- Why did Japan enact the Large-Scale Retail Store Law and how did it end up prohibiting stores such as Wal-Mart, Costco, Carrefour, and Toys “R” Us?

- Japan later repealed this law and has now enacted a new law, the Large-Scale Retail Store Location Law. How have the changes in the laws affected the large foreign retail stores?
- What do the experiences of Wal-Mart, Costco, Toys "R" Us, and Carrefour say about the obstacles to operating a successful large discount retail store in Japan? Will these companies be successful?

Data Collection

In the spring of 2006, I paired up with a bilingual Japanese student, Eriko Takeuchi, from Kansai Gaidai University to conduct three interviews in Japanese. The first interview was at the Costco location closest to Kansai Gaidai, which was my location base, with the Marketing Manager, whom one of my professors had met at a business card swap. The second interview was at Seiyu and we chose the location because Seiyu's Annual Report said the Oji store was one of three new supercenter models, which turned out to mean the store was a general merchandise format with household goods and food as opposed to the standard Seiyu grocery store. Our interviewee was chosen in a conversation my project partner had with the Oji store in which she explained that we were students doing a class project. The third interview was at the closest of the large Toys "R" Us stores that my project partner found on the Toys "R" Us website and she called the store to arrange an interview with a manager. I wrote questions in English that related to my research questions and some general information about the person being interviewed and his job. Eriko translated and often simplified the questions ahead of time and then asked most of the questions during the interviews. However, we both spoke in Japanese with the interviewees for much of the interview process. We both took as many notes as possible during the interviews and then discussed what was said immediately following the interview, so that we could process and compile the information while it was forefront on our minds. There was some concern about interviewees being suspicious of our motives given the current competitive nature of retailing, so we tried to come across as non-threatening college students and therefore decided not to tape record the interviews.

The first interview took place at Costco Amagasaki, Hyogo Prefecture on February 27, 2006 with Kunio Sakai, the Marketing Manager. On March 6, 2006 we went to one of the few Seiyu stores that has been converted from a grocery store to the "general merchandise" format -- more like Wal-Mart stores in the United States. At the Seiyu in Oji, Nara Prefecture, we interviewed the Operation Manager Mr. Yoritsu who has been working for Seiyu for nineteen years and spent the past two at the new Oji location. The third interview was on April 10, 2006 with a younger Store Manager, Mr. Yoneda at a Toys "R" Us in Ibaraki. This particular Toys "R" Us shared its location with a McDonald's and a sports warehouse store.

After conducting the interviews in Japan, I compiled my research and primary data into a case study and research paper answering the research question and concluding with my findings. Each of my findings relative to the interviews is set out below.

5. WAL-MART/ SEIYU

Strategy for Japan

Wal-Mart began acquiring an 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 (3). In December 2005 Seiyu became a subsidiary of Wal-Mart Stores, Inc. ("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?" was my first question.

Why Invisible?

Wal-Mart's low profile strategy is not limited to Japan as the company has adopted different approaches to its various markets in order to achieve its marketing goals ("Wal-Mart enters" 1). In Britain, Wal-Mart adopted a similar strategy to the one that it uses in Japan of partnering with a local firm and operating under a different name, Asda in that case. In fact, seventy percent of Wal-Mart International's sales come from places where the Wal-Mart name is invisible including Asda, Bompreço of Brazil, and Seiyu (Landler 1). In the fast growing Chinese market however, the Wal-Mart name is visible ("Wal-Mart enters" 1). Nowhere else though, is Wal-Mart's invisibility as complete as it is in Japan (1).

There are many advantages for Wal-Mart to operate under its partner's name in Japan. One spokeswoman from Wal-Mart explained in a new interview that name recognition is an important factor of consideration. "For Japanese customers," she explained, "the name Wal-Mart doesn't mean a lot. The Seiyu name means a lot. For the near future we'll go with the Seiyu brand" ("Wal-Mart enters" 1). Other obvious benefits for entering the Japanese market with a partner who is well known in that domestic market include being able to use the existing stores, keeping the existing customer base, and working with people who understand the Japanese customers.

The Japanese consumer is known to be a "fastidious shopper," and foreign brands often face one of two fates: being embraced or completely rejected, with little in between ("A New Era" 14). This fear of rejection is one of the main driving forces behind Wal-Mart's decision to remain invisible, at least for the time being. For example, "if Wal-Mart brings in a bunch of products in bulk, such as candy Japanese can't stand, it's doomed" ("Wal-Mart enters" 2). This may seem harsh, but there is precedent to these kinds of claims. For example, the French makeup company Sephora which entered Japan in 1997 and withdrew in 2001 is said to have failed because it located the perfume on the main floor, where consumers first enter, ignoring the fact that perfume is not a high selling product in Japan ("A New Era" 15). If Wal-Mart makes a mistake under the Seiyu name, the Japanese consumers will not associate the mistake with Wal-Mart's brand image (will not reject "Wal-Mart" only "Seiyu"), which gives the company a possible way to recover in future endeavors.

Changes

Wal-Mart's calculated entrance and careful study of the Japanese market has led the company to adopt a process of gradually changing the existing Seiyu stores, rather than arriving and interjecting extreme changes at once by setting up a typical Wal-Mart layout as seen in U.S. stores. Seiyu currently has 405 stores in its group, although some operate under different names (*Seiyu* 1). Most of these stores sell only groceries, with food accounting for 591 billion yen of Seiyu's total sales of 947.2 billion yen for 2005, or more than 60 percent (*Seiyu* 2; "Japan Fact" 1). Almost all of Seiyu's food products are obtained from local Japanese suppliers ("Japan Fact" 1).

So where are the supercenters and can they become successful? In April 2004, Wal-Mart opened its first Japanese supercenter and flagship store under the Seiyu name in Numazu, southwest of Tokyo ("Can Wal-Mart" 18; "Japanese love"). Spread out over 8,000 square meters of one floor, this store features wide aisles, low price clothing, folding bicycles, 330 varieties of fresh seafood, moving walkways, and benches for tired shoppers ("Can Wal-Mart" 18; "Japanese love"1).

Despite early criticism that this kind of Wal-Mart model could never be successful in Japan, Japanese customers "have been and will be very receptive," and about 8,000 customers were visiting the Numazu location on Saturdays and Sunday after it opened ("Japanese love" 1; "Can Wal-Mart" 18). The question is whether Wal-Mart should continue to build stores like the Numazu location. At this point, it appears they will not. Operation Manager Yoritsu at Seiyu's two-story Oji location, one of the three new superstores, said he believes only about half of Japanese customers would like one-floor shopping and that the lack of parking would be a huge obstacle for stores in city centers like his (Yoritsu). Instead, it appears Seiyu's plan is to focus its energies on reviving the existing stores and open few new ones (*Seiyu* 3).

These revival efforts by Seiyu—to make it more like the U.S. Wal-Mart model and improve sales—focus on remodeling stores and other in-store changes that will appeal to the customer. One important change is the increase in stores that are open 24 hours a day, which totaled 209 at the end of 2005. Additional stores are now open until late for customers catching the last train, which brings the total number of late-night or 24 hour stores to 240 (*Seiyu*). Other measures by Wal-Mart include the introduction of Wal-Mart's private brand Great Value and improvement of the Seiyu's Best brand. Also, Wal-Mart has introduced its own clothing brands to some stores (*Seiyu*).

EDLP: Everyday Low Prices

After Wal-Mart first announced it would be buying shares in Seiyu, CEO Scott said the "Japanese people's degree of expectation and demand with regard to products are the highest in the world, especially in the area of food." If Wal-Mart can learn about "Japanese consumers, culture, and trade," he added, this knowledge will help the company in its other international markets (Sato 33). This learning process has been a bit of a challenge for Wal-Mart in some marketing features.

Aside from supercenters, key features of Wal-Mart in the U.S. that have helped make the store so successful have been much more difficult to execute in Japan. The highest profile situation is that of Wal-Mart's Every Day Low Prices, or "EDLP." Japanese consumers, as discussed, associate low prices with low quality, which is a major obstacle to offering consistently low-priced products. Changing the minds of the consumers is not impossible and "people like lower prices if they can get the same quality;" so, it is only a matter of convincing them of the high quality, which will take time ("Wal-Mart's Waiting" 2). Wal-Mart attempted to make this shift in consumer thinking with a pricing campaign that did not work.

An introductory attempt at "long-term price reduction" was the "Rollback" campaign begun in December 2002 (Sato 34-5). The Rollback campaign to keep prices of certain products low for an experimental period was unsuccessful. Sales during this campaign fell by 6.6 percent and sales per customer fell by 3.9 percent (34-5). The increase in customers was also low because the bargain sales did not occur as frequently as before, which was a mistake in the understanding of Japanese consumer behavior. Frequency of shopping is an important element in Japanese retail as shopping often has traditionally been part of the Japanese culture and history. This element of shopping frequency is also closely related to the next problem with EDLP.

Another major impediment with EDLP is the system of *chirashi*. Japanese stores send out flyers several days a week to advertise which products are being discounted that particular day. This works against the EDLP system because, for example, if Seiyu is selling milk at the everyday low price of 105 yen, but a *chirashi* advertises that one of Seiyu's competitors is offering milk for 90 yen that day, then the Japanese shopper will go to the competitor for her milk (Yoristu). Another obstacle for EDLP is being able to cut costs in order to make the discounts permanent.

Cutting Costs

Cutting costs from its supply chain is something Wal-Mart has been successful at in the U.S., but is a second major obstacle for its Japan stores (Rowley "Japan Isn't" 1). As "the world's most demanding shoppers," Japanese consumers place importance on fresh produce, fish, and products to cater to their local tastes (Rowley "Wal-Mart's Waiting" 1). Wal-Mart responded to these demands by providing local fish and produce and changing displays around to emphasize the freshness of these items, and also by offering customized products in the different regions of Japan (*Seiyu* 4). In order to compete with the well-established convenience store culture, Seiyu is working hard to significantly reduce "out-of-stocks" and has created "late-night" selection displays (6). While these measures please the customers, they actually help to drive up costs. This means that Wal-Mart must therefore find other ways of cutting costs in the supply chain in order to compete. One new measure Wal-Mart is employing is the opening of a large-scale distribution center in Misato, Japan, near Tokyo, which will lower costs in the supply chain and the cost of employees (*Seiyu*, Yoristu). This distribution center is now fully operational after opening in August 2006 and has successfully taken charge of “logistics of food, household goods and apparel items in the Tokyo metropolitan area” (“Seiyu 2006 Results” 1).

The biggest ways Seiyu has been able to cut costs are by increasing the percentage of part-time employees and making effective use of Wal-Mart’s superior “inventory-tracking technology” (Rowley “Wal-Mart’s Waiting” 2). After cutting costs in wages by millions of dollars, Seiyu’s part-time workforce now totals eighty percent, up from less than seventy percent in 2002 (“Wal-Mart’s Waiting” 2). Manager Yoritsu in Oji approximated that ninety percent of his employees are part-time, and eighty-seven to ninety percent are women (Yoritsu). Seiyu has made these cuts through the common Japanese practice of forcing full-time employees into early retirement. In 2004 1,600 full-time employees, totaling twenty-five percent of Seiyu’s workforce, retired “voluntarily,” saving the company $46 million in wages that year alone (“Can Wal-Mart” 18).

A second major cost cutting measure is the widespread institution of the so-called SMART or “Retail Link” system of inventory management. This technology is exclusive to Wal-Mart. It instantaneously tracks inventory in the just-in-time stock strategy, cutting down on the number of employees needed. After first being introduced to Seiyu in 2003, the number of stores using this technology is rapidly increasing and the new distribution center will also make effective use of the system (Yoritsu).

Interview

Eriko and I interviewed Operation Manager Yoritsu at Seiyu's Oji station location on March 6, 2006. Mr. Yoritsu had worked for Seiyu for nineteen years and been in Oji for two years. When asked about Seiyu's plans to open more supercenters like the Oji location or the one-story Numazu location, he discussed the issue of one-story shopping. He thought about half the customers would prefer one-story while the other half would not. The Large-Scale Retail Store Location Law makes it hard for companies to build new locations, especially in the suburbs. So, the companies are left with the limited option of changing existing store layouts. He said the tall shelves in his store were the U.S. Wal-Mart style. Although they are hard to see over and it is hard to reach products on the top shelf, he thought it was convenient because there was no need to go to the warehouse as often because the products were stacked. The Oji location's main customers were salary-men and students because of the store's proximity to the train station. His main concern for other customers is the limited parking space, difficulty accessing it, and the parking fee required unless the customer buys something (Yoritsu). In Japan recently, the popularity of shopping centers has increased. The Seiyu in Oji was the anchor store in a Japanese-style shopping center, in which some small retailers and restaurants rent space in the mall and some rent space within the Seiyu store itself.

When asked about Seiyu's long terms plans and plans related to the merger with Wal-Mart, Mr. Yoritsu said Seiyu's long term goal is to bring in more customers. Interestingly, he mentioned Wal-Mart's long term plan for recruiting Japanese students. Wal-Mart is offering scholarships to Japanese students to come to the U.S. and study at the University of Arkansas, and then it will hire these students to work at Seiyu in Japan after they graduate. Mr. Yoritsu thought the small yet consistent changes Wal-Mart has been making to Seiyu are unperceivable by the Japanese shoppers (Yoristu). In other words, the changes are happening incrementally to increase success for each change.

We asked Mr. Yoritsu to explain his thoughts on the changes Wal-Mart has been implementing in Japan. He thought EDLP was definitely not working. He said the customer goes to the store offering the lowest prices on that day, and not to the store that has overall low prices. The Oji Seiyu, he added, advertises sales three times a week, which fits in with traditional Japanese business practices.

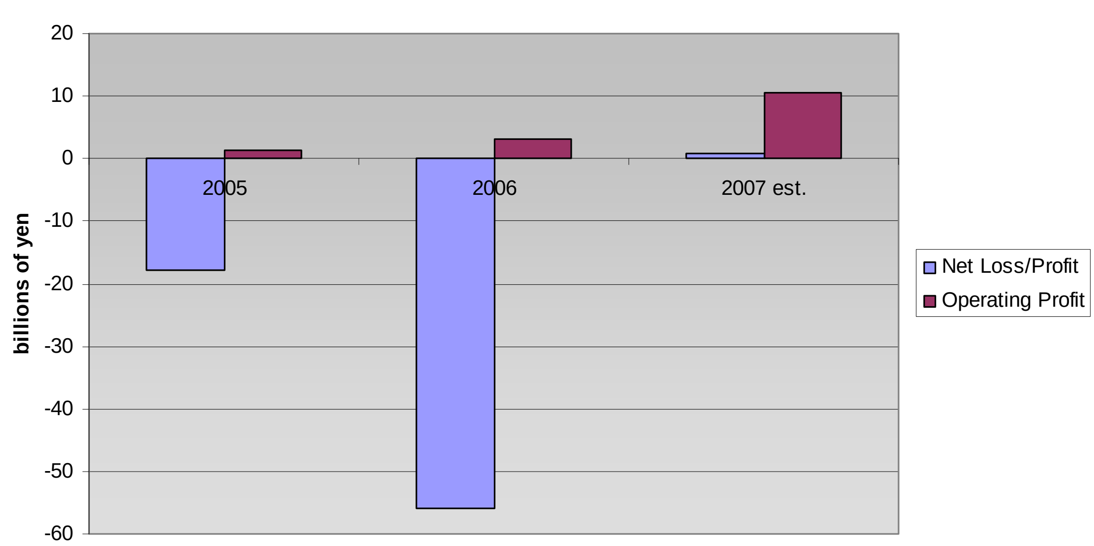
In terms of technological changes, the Oji Seiyu was using the SMART inventory system that was adopted from Wal-Mart. The distribution system, when it is built, will lower the cost of employees by replacing them with technological advances. The reduction of full-time employees also lowers costs, as the Oji Seiyu now has about eighty percent part time employees working about forty hours a week – forty hours being part-time in Japan (Yoritsu).

Mr. Yoritsu also discussed the failure of Carrefour and the failure of Wal-Mart in Japan the first time around. He thought Carrefour failed because their product sizes were too big, which is exactly what he said was Wal-Mart's mistake the first time in Japan. Although not found during my research, it is possible that some of the incentive for Wal-Mart to operate under the Seiyu name, other than as discussed above, is because of Wal-Mart's previous failure during its first short-lived attempt in Japan. Overall, Mr. Yoritsu seemed confident about the success of Seiyu and did not seem at all concerned about the fact that it is now being run by Wal-Mart. His location is in a new shopping center in the suburbs and is a very modern store with many departments, including food, clothing, and music among many others.

Losses

Financially, Wal-Mart's basic goal for Seiyu is to get it "out of the red." Losses for 2004 totaled $105 million and rose to $115 in 2005 which brought the company to four consecutive years of "red ink" (Rowley "Wal-Mart's Waiting" 2). Although Seiyu has lost over $1 billion since 2002, Wal-Mart is still pumping in money while the Mizuho Corporate Bank is also investing $410 million yen (1-2). In the first quarter of 2006, Seiyu stores experienced strong sales, especially in the newly renovated stores, and "posted a smaller quarterly operating loss" of 2.8 billion yen, a drop from the 4.9 billion yen loss posted the previous year ("Wal-Mart Japan unit" 1). Total losses for 2006 were triple what they were in 2005 due to "restructuring costs" that "offset" an actual increase in sales ("Losses" 1). Figure 5-1 shows Wal-Mart/Seiyu's net loss and operating profit in billions of yen for 2005 and 2006 and Seiyu's estimates for these figures for 2007.

Figure 5-1. Wal-Mart/Seiyu Losses and Profit, 2005. 2006, and 2007 est.



Source: *Agence France Presse*, 2007 ("Losses" 1)

The above figure shows that for 2005, Seiyu had a net loss of 17.77 billion yen and an operating profit of 1.23 billion yen. Losses for 2006 rose to 55.79 billion yen while operating profit actually grew for the first time in fifteen years for Seiyu to 3.22 billion yen because of a sales increase (1). Despite the continued losses, Wal-Mart executives are optimistic about a return to profitability as soon as the 2007 renovations, technology programs, and other cost cutting measures begin to take effect. Seiyu's estimates for 2007 include a return to profit of 800 million yen and operating profit of 10.6 billion if sales increase by 1.7 percent (1).

6. COSTCO

The Case of Costco & Interview Data

Costco, a large U.S. “membership warehouse club,” entered the Japanese market in 1999 with their first store in Hisayama, Fukuoka Prefecture (“A New Era” 15). Currently there are five Costco warehouses in Japan, five in Korea, four in Taiwan, and many in Mexico, Puerto Rico, Canada, and the U.K. (Costco). Future plans for growth in Japan include opening a warehouse in the Kanto area and adding one or two warehouses every year for the next ten years. These plans, however, according to Amagasaki Marketing Manager Kunio Sakai, are dependent upon human resources (Sakai).

The Costco shopping style is almost a direct contradiction of everything Japanese: product sizes are large, the location is not in a city center, one does not shop there everyday, and lawn furniture and play sets are on display, despite the fact that lawns are practically nonexistent. Considering fifty percent of Costco Japan’s goods are imported, many shoppers come to enjoy the novelty of an “American shopping experience,” and often come for several hours at a time just to look around. Despite the cultural differences between the American and Japanese shopping styles, Costco shows no signs of backing out. They seem determined to find a way to compete and succeed in the Japanese market.

Some factors of Costco’s operations in Japan set it apart from the Wal-Mart/Seiyu model. For example, Costco does not participate in the Japanese tradition of *chirashi*, and in fact, has little budget for advertising. Manager Sakai told us they rely mostly on word of mouth to bring in new customers. They do, however, send out invites for membership and one-day shopping passes. The day following our interview Manager Sakai made and sent numerous special invitations in two languages for Kansai Gaidai students (Sakai). A one-day invitation is necessary for entrance into Costco without purchasing a one year membership which costs 4,200 yen (Costco).

Another major difference from Wal-Mart/Seiyu is that Costco is obviously operating under its own name. Sakai-san said this was because Costco is a "100-percent American company," which he is possibly contrasting with Seiyu on the grounds that both Wal-Mart and Seiyu executives are involved in the decision-making (Sakai). Recently, the number of foreign retailers choosing to enter the Japanese market independently has been increasing, as a "go-it-alone strategy" allows for "more efficient store management and quicker decision-making" ("A New Era" 14). Costco has taken this route and has found that it works well for them. In addition, Gap and Carrefour have also adopted this strategy (14).

In order to be successful in Japan, a company needs to cater its goods and services specifically for the Japanese consumer, as previously mentioned. Companies who do not follow this basic rule sometimes find out later after suffering a substantial loss, and ultimately have to change their ways. If they change to adjust to cultural needs this usually results in a sales increase. If not they are forced to withdraw from the market.

Costco has definitely made some efforts to cater to its Japan customers, while still retaining a store atmosphere and product selection that closely resembles those of its U.S. stores. One such effort is a delivery service. In compliance with government controls, Costco warehouses are located in suburban areas and are complete with parking lots and garages. While many customers do drive to Costco, public busses and trains are still a major form of transportation and lugging three cases of Coca-Cola and a giant platter of sushi through the trains is simply not an option. For the low price of 500 yen for 30 kilograms (66 pounds), customers can have their purchases delivered directly to their home. Also popular with Japanese customers are fresh items such as fish and meat, seasonal goods including Christmas products, and outdoor items such as tents. Costco has paid attention to these interests/needs and caters to these demands by offering such products. On the other hand, in order to keep with the store's "American style," Costco is making a "tough stand" too keep many features the same such as having all stores close at six o'clock on Sundays (Sakai).

Costco is offering something truly unique in the Japanese market—warehouse club shopping. Recent trends in Japanese shoppers show a growing interest in new, at least new-to-Japan, retail business concepts ("A New Era"). In response to the issue of combining high quality and low price, something with which Wal-Mart was having a problem, Manager Sakai said he thought that Costco customers understand they are able to get both (Sakai). Although Manager Sakai acknowledged that there were signs that Costco may be struggling to crowd its stores, he indicated that they are not ready to back out of Japan any time soon.

In Fact, three new Costco locations are underway at this time. A warehouse in Kawasaki is opening in summer 2007 and two other locations in Sapporo and Iruma are opening soon (*Costco Japan*). Costco Japan is advertising its "Real Estate Expansion Plan" currently on its website. Costco is also advertising its new services in Japan including optical services, photo processing, tire installation, American style food court, and the delivery service. During our interview at Costco in Amagasaki, my interview partner Eriko was very excited to eat American pizza in the food court and we observed that many shoppers were doing the same. The Costco Japan website is also emphasizing fresh foods such as fresh meat, fish, produce, bakery, and deli items in an effort to show its understanding of the Japanese consumer's need for these items and their willingness to make the items available (*Costco Japan*).

Financially, it is difficult to determine the success or failure of Costco Japan because it is not a public company in Japan. Seiyu, under the control of Wal-Mart, and Toys “R” Us-Japan are both public companies in Japan and they release financial data annually. Costco releases financial data for its entire company including the U.S. and the international operation. This means one cannot learn the financial data for one international country individually. From what information Costco has released on its website about expansions plans, it appears the Japan stores are doing relatively well.

7. SUCCESS: TOYS “R” US

The Case of TOYS “R” US

Since Toys “R” Us gained entry into the market in 1989 and opened its first store in 1991, it has become Japan’s largest toy retailer (“A New Era” 14). Ten countries outside the U.S. have Toys “R” Us stores (“Toys ‘R’ Us” 4). Before it reached this success, however, Toys “R” Us faced tough resistance from within Japan. Beginning in 1988, Toys “R” Us began making demands on both the Japanese government and on the wholesalers to level the competitive playing field. At that time, Japan’s major retailers Daiei and Jusco had to deal with ten different wholesalers for their toys and there was virtually no price competition (Sato 36). In response to wholesalers refusing to sell it toys, Toys “R” Us attempted to go straight to the manufacturers, eliminating the middleman. Wholesalers struck back by threatening to boycott any toy manufacturer selling to Toys “R” Us. Eventually Toys “R” Us, the wholesalers, and the manufacturers all settled and agreed that the manufacturers would ship toys to Toys “R” Us at the same price as the manufacturers shipped to the wholesalers, and that the manufacturers would supply toys to the Toys “R” Us distribution center (Sato 37).

Despite these conflicts, a growing number of customers started shopping at Toys “R” Us and “ultimately toymakers must satisfy customer expectations” which meant selling to Toys “R” Us (Katz 316). Japanese department stores fought back by discounting their toys in 1993. This sense of competition went beyond department stores to include supermarkets and specialty shops, beginning the “age of fierce price competition” (Sato 37). Toys “R” Us also impacted Japanese retailers when the retailers began using only two or three wholesalers instead of ten, and when all but one manufacturer agreed to sell directly to Toys “R” Us (37). Remarkably, by 1996, Toys “R” Us was the number one toy retailer in Japan.

Another way Toys "R" Us eased into Japan to increase it market share was through a joint venture with McDonald's Co. Japan. McDonald's Co. Japan offered knowledge and experience of the market, and the two companies even now share some locations ("A New Era" 14). This model of entry into the Japanese market through partnering has been duplicated by Wal-Mart, as discussed in the Wal-Mart Section, and by other foreign retailers.

On its way to number one, Toys "R" Us Japan faced some problems common to all American retailers in Japan. For example, Toys "R" Us was in the practice of ordering toys well in advance of the Christmas season, but in Japan the popularity of toys is short-lived and ordering toys early in Japan often meant Toys "R" Us was left with excess quantities of unpopular toys (Sato 38). This problem also occurs in the U.S. before the Christmas season. Also, Japanese consumers disliked the warehouse, big-box style of the stores and they thought the sales clerks were uninformed about the products (Sato 38). Toys "R" Us "coped" with these problems "steadily one by one" by changing store layout and improving employee training (38).

Toys "R" Us Today

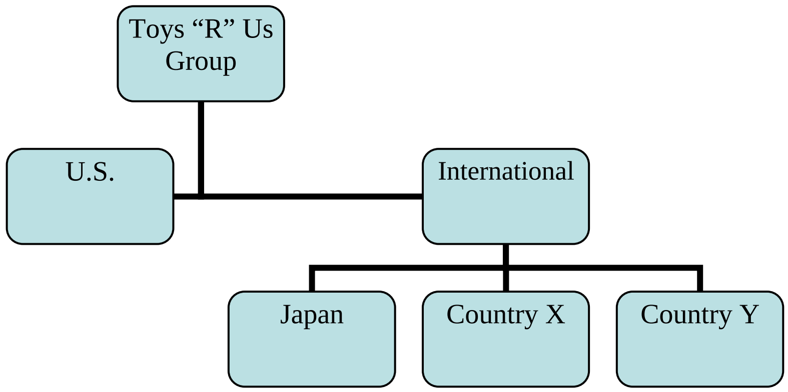
In contrast with Toys "R" Us Japan's apparent success, the company in the U.S. is struggling to stay afloat in competition with monstrous retailers like Wal-Mart. In January 2006, the American company announced it will be closing seventy-five stores in the U.S. and converting several to Babies "R" Us ("Toys 'R' Us" 2). Toys "R" Us Japan, on the other hand, said it will not be affected by the U.S. company's closings and will continue with its own plans to have 250 stores by 2010 ("Toys R Us wants" 2). In fact, the new Babies "R" Us stores which started in December 2002, are providing special services in Japan such as shoe fitting, and this store is "considered to be more suited to Japanese consumer needs" (Sato 38).

Interview

On April 10 2006, we interviewed the store manager at the largest Toys “R” Us in our vicinity, which was in Ibaraki. In our interview, Manager Yoneda confirmed the goal of 250 stores by 2010, which, considering Toys “R” Us Japan currently has 147 stores and 18 baby stores, is a far-reaching goal. Mr. Yoneda also revealed his belief that some of the Japanese stores that are not performing well may actually be closed and that Toys “R” Us Japan may not be doing any better than the U.S. stores. When asked what the obstacles for success in Japan have been, he replied that at first there was no manual on how each person should do their job, but Toys “R” Us responded by making these manuals. He also mentioned the Christmas sales dilemma -- one of the obstacles cited above -- when he said that in the U.S. the Christmas season provides enough sales to keep the store in business for the rest of the year, but in Japan the peak sales time changes depending on new products (Yoneda).

We asked what the relationship was between Toys “R” Us in the U.S. and Toys “R” Us in Japan. He said that there is a close relationship between the Japan and U.S. Toys “R” Us’ to the extent that the U.S. company decides what toys to sell in Japan and that they do common sales promotions (Yoneda). However, he drew this chart, Figure 7-1, to explain that the International stores were not under the direct control of the U.S. branch of Toys “R” Us. For this reason, he said Toys “R” Us Japan will not be directly affected by the store closings in the U.S., although some stores that are underperforming may close (Yoneda).

Figure 7-1. Relationship between U.S. Toys “R” Us and Toys “R” Us-Japan



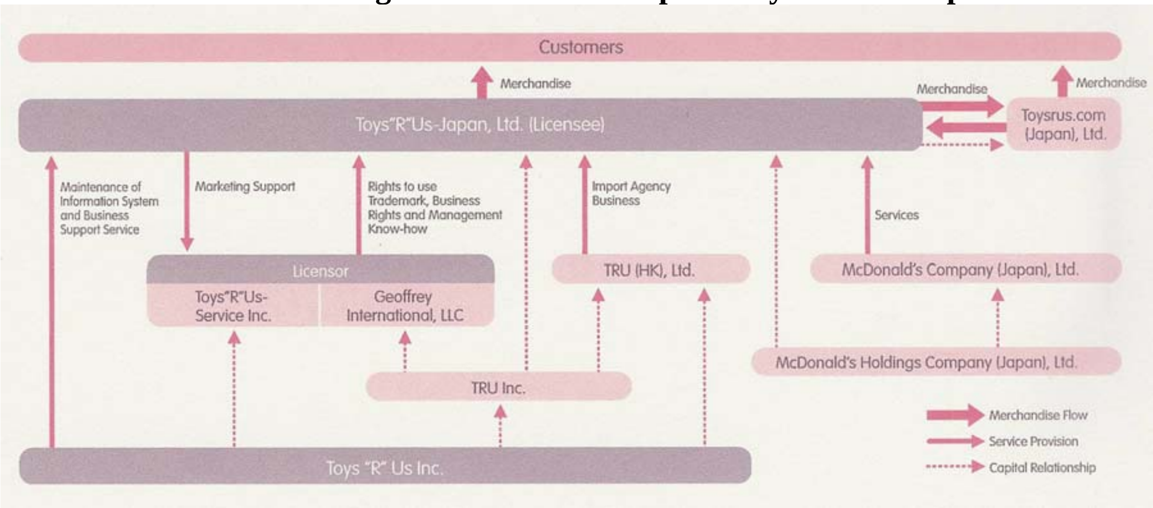
Source: Interview, Yoneda, 2006

In the most recent annual report from Toys “R” Us Japan, Manabu Tazaki, chairman and CEO of Toys “R” Us Japan, explains the relationship of Toys “R” Us U.S. and Toys “R” Us Japan:

> They [Toys “R” Us U.S.] presently own 47.7% of our [Toys “R” Us Japan] shares. We pay a royalty fee to Toys “R” Us in the U.S. for use of logos, etc., for know-how and to license the business concept. At this time, we continue to benefit from our position within the Toys “R” Us Group. Since we are a public company listed on JASDAQ, we enjoy relative autonomy and have pursued our growth independently. Therefore, we will continue to communicate regularly with Toys “R” Us in the U.S. with the sole aim of maintaining and increasing value for Toys “R” Us-Japan shareholders. (“Toys “R” Us-Japan, Ltd. Annual Report” 7).

Toys “R” Us Japan also pays royalties to McDonald’s Company (Japan), Ltd. “for assistance relating to identification of potential store locations, development of sites and conduct of retail operations in Japan” (40). This relationship is illustrated in Figure 7-2 from the Toys “R” Us 2004 Annual Report.

Figure 7-2. Relationships of Toys "R" Us-Japan



Source: Figure created by Toys "R" Us-Japan, Ltd. ("Toys "R" Us-Japan, Ltd. Annual Report" 40).

Manager Yoneda also discussed his views on how the Large-Scale Retail Store Law and Large-Scale Retail Store Location Law affected Toys "R" Us. The first law, which regulated "floor space, business hours, and holidays of supermarkets and department stores," was an advantage according to Yoneda because it allowed Toys "R" us to extend its business hours ("Dispute;" Yoneda). He added that the Location Law means the stores do not have required closings every month, but that there are now some difficulties in building new stores because of the law's restrictions. Toys "R" Us, he said, usually leases out existing buildings and only owns a few locations, but if the law prevents companies from building new retail spaces, he thinks it will be difficult for Toys "R" Us to expand. He concluded with a strange remark: he thought that even though Toys "R" Us' U.S. stores are now closing, overall they are still more successful than Toys "R" Us Japan (Yoneda). He probably meant that Toys "R" Us has achieved a larger scale in the U.S. than in Japan, and he was also hinting that Toys "R" Us Japan's confidence that it will not be affected by the U.S. affiliate's closings is false or at least exaggerated.

Toys "R" Us opened the doors for many of the foreign retailers now stealing the spotlight in today's retail news. Toys "R" Us's success in helping to break down barriers in Japan's dual economy has inspired several other retailers to give Japan a shot. Japan's unique dual economy is the combination of a strong and globally competitive export industry and a weak domestic industry with low productivity. The experience of Toys "R" Us sends the message that reform in Japan is not impossible when influential insiders, like large Japanese retailers in this case, recognize that they can also benefit from the changes and join the effort. This was a major reason the Large-Scale Retailer Store Law was reformed and deregulation in the retail sector began.

8. FAILURE

A. CARREFOUR

The case of Carrefour is different from that of the other stores discussed above because Carrefour has faced a different fate and was in Japan for only four short years. This is surprising considering that Carrefour, a French company, is the second largest supermarket chain in the world after Wal-Mart ("Carrefour Japan" 8). Carrefour has a presence in thirty markets worldwide, but was not able to conquer the world's second largest market.

In what an executive described as a "short, expensive adventure," Carrefour entered Japan in 2000, opened a total of eight stores, never discovered the "right formula" for the Japanese market, and eventually decided to sell its stores to the Japanese retailer Aeon in December 2004 ("Carrefour exits" 1). Losses for the fiscal year ending in March 2004 amounted to 32.3 billion yen (Goda "Carrefour hits" 1). Although the main reason Carrefour claims that it ultimately withdrew from Japan was due to poor sales in France, the company was unable to make a profit in Japan for several reasons. The problem comes down to the fact that Carrefour did not put a full effort into figuring out the Japanese market and therefore could not offer products and services the Japanese customer desired ("Carrefour hits" 1). In other words, Carrefour did not understand its consumer base in the Japanese market and did not address its needs.

Initial Problems and Attempts to Adapt to Japan

From the beginning, after opening the first Japanese store in Makuhari, Chiba in December 2000, Carrefour had problems. Carrefour's strengths in other markets were low prices, achieved by trading directly with the manufacturer, and "retail theatre," a term describing the interesting design of the stores (Sato 31). Carrefour was unable to show its strength of low price because many manufacturers in Japan declined to trade directly with Carrefour. The second strength of exciting retail fell short of Japanese expectations. Japanese consumers assumed a French company would offer “high-class big-name brands” and since it was Carrefour, they expected these luxury goods to be discounted (31-2). Carrefour actually carried its own brand and sold no luxury goods, which disappointed many Japanese shoppers (31-2).

One headline announcing Carrefour’s departure from Japan read “Consumers like low prices, not cheap goods: Carrefour, Wal-Mart megastore models lose favor” (Hasegawa 3). Carrefour entered the market with a potential advantage, its hyperstores were something the Japanese had never seen before and would therefore be a new and exciting shopping experience. However, Carrefour fumbled by using the same pattern of food selection and store layout from its French stores and put Europeans – those unfamiliar with Japanese consumerism – in the top management positions (Goda “Carrefour: Can Carrefour” 1). It was not until much later that the company realized it needed a Japanese partner and began to make changes to its product selection and product displays to better fit the market (“Carrefour exits” 1). After partnering with Aeon and putting some Aeon executives in charge, Carrefour Japan began to see higher sales, but no profit.

In addition to the shift in “personnel policy,” Carrefour decided to make more changes to make the store more like Japanese supermarkets (Sato 32). These changes included lowering the height of shelves, selling high-class French brand handbags, introducing organic vegetables, introducing “lightweight shopping trolleys” to accommodate the typical smaller purchases of Japanese shoppers, and selling more imported French goods (32-3). These changes helped Carrefour increase sales by ten percent in half of 2003 (33).

The first store to put Japanese in management positions was the Amagasaki, Hyogo store, which we visited in March 2006. Since 2004, that store and all locations have been under the ownership of Aeon, but some of the changes Carrefour implemented in 2002 and 2003 were still evident. For example, the Amagasaki store is in a small shopping mall style building with many other small retail shops. In 2002, Carrefour raised the "tenant ratio" and invited as many as 54 tenants to the store in Saitama (32). We also observed the lower height of the shelves, which was comparable to other Japanese stores, but this location was identical to any other Japanese store, a criticism of Carrefour in Japan. The store we visited was, of course, under complete control of Aeon, which may be why the store was not unique.

Why did Carrefour Fail?

In a case study performed by Japan Consumer Marketing Research Institute, Eiryo Goda gives three reasons why Carrefour was defeated in Japan. First, Carrefour failed to meet the needs of the Japanese consumer and was unable to discover that the Japanese consumer's tastes can change rapidly, that large differences exist between what products sell in what regions, and that mass marketing and merchandising just does not work. Second, Carrefour's decision to "go it alone" without a partner meant that it was unable to expand the number of stores it had in Japan and faced problems in finding large enough real estate. In comparison, Wal-Mart's joint venture with Seiyu has allowed the company to receive help in operating its existing stores and in buying new property. The third major reason Carrefour failed is that it lost the trust of the Japanese consumer after being charged by the Ministry of Agriculture on two occasions, once for "mislabeling substandard Japanese pork as higher quality American" pork and a second time for selling expired ham. All of these factors combined with a drop in popularity of the "General Merchandise Store format," the Wal-Mart model, and Carrefour's inability to offer the Japanese consumer something new and appealing, led to Carrefour's ultimate demise in Japan (Goda "Carrefour hits" 1-4).

In another case study written right after Carrefour opened its first store in Japan, Goda hypothesized that Carrefour would not be successful in Japan ("Can Carrefour" 8.) Carrefour has withdrawn from every developed country it has tried to open stores in, including the U.K., the U.S., Hong Kong, Belgium, and now Japan. In essence, Carrefour's pattern for success discussed in section 2A did not translate well in developed countries, and Carrefour's inability to develop a new pattern and invest enough capital in Japan meant certain failure.

B. WAL-MART IN SOUTH KOREA AND GERMANY

Wal-Mart's internationalization strategy has been successful in many countries, but in 2006 Wal-Mart finally admitted defeat in South Korea and Germany. Wal-Mart can learn from the mistakes it made in South Korea and Germany and apply this knowledge to its venture in Japan to avoid loss. Also, Japan could present Wal-Mart with the same conditions for failure that existed in South Korea and Germany if the company does not recognize potential pitfalls or learn from its mistakes. This section examines what Wal-Mart's mistakes were and what lessons Wal-Mart has learned for the future.

South Korea

In May 2006 Wal-Mart announced it would be withdrawing from South Korea and selling its sixteen stores to the market leader Shinsegae, owner of E-Mart (Sang-Hun 1). Wal-Mart opened its first South Korean store in 1998, but failed to localize and to increase its market share enough to "press suppliers on pricing" (1). Wal-Mart's losses in South Korea for 2005 amounted to ten million dollars or 9.9 billion won (1; "Wal-Mart Selling" 2). The vice chairman of Wal-Mart said, "As we continue to focus our efforts where we can have the greatest impact on our growth strategy, it became increasingly clear that in South Korea's current environment it would be difficult for us to reach the scale we desired" (Sang-Hun 2). Wal-Mart has been under pressure to provide investors with higher returns and withdrawing from the Korean market appears to "underscore" these efforts, although a spokesman said transferring the investment in Korea to another market will enable Wal-Mart to provide faster returns in the future ("Here's a switch" 2).

Wal-Mart is not the only global retailer that has withdrawn from South Korea. Carrefour sold its thirty-two South Korean stores to E-Land, a local retailer, in April 2006 ("Here's a switch" 2). Analysts and customers give similar reasons and criticisms about why both global giants failed in South Korea, many of which are similar to mistakes these companies are making or already made in Japan. For example, both retailers were not "aggressive enough" in opening new stores quickly, attracting new customers, or increasing their market share (Sang-Hun 1). Another mistake was the companies' use of Western-style marketing that focused on dry goods such as clothes and electronics, as opposed to local retailers that successfully focus on food and beverage (2). The local retailers also utilized "eye-catching displays" and salespersons with megaphones, while Wal-Mart and Carrefour simply left products in boxes (2). The boxes of goods proved to be too large for Korean housewives who, like Japanese housewives, prefer smaller packaging and often do not drive to the supermarket (Landler 4). Also, the general appearance of the stores was problematic because Wal-Mart and Carrefour had much simpler store designs than the local competitors. For instance, Korean retailer E-Mart had decorated ceilings where Wal-Mart had exposed piping (4). Koreans, like the Japanese, still prefer to shop daily and locally at specialty shops, not like the America shopper's custom to go to Wal-Mart once a week (4).

Both Wal-Mart and Carrefour are taking their focus and funds from Korea and transferring them to China. Since China joined the World Trade Organization in 2004, it has lifted many restrictions on foreign retailers, comparable to the chain of events that happened previously in Japan. Wal-Mart, Carrefour and fellow retail giants have since been expanding their holdings in China hoping to make money in that fast-growing economy. In October 2006, Wal-Mart outbid Carrefour for control of the Taiwanese hypermarket Trust-Mart, which has sixty-six stores in China (Linebaugh 1). Wal-Mart's first store in China opened in 1996 and this new 2006 acquisition would make Wal-Mart the biggest chain of hypermarkets in China ("Wal-Mart 'eyes China'" 1). In contrast with failures in South Korea, Wal-Mart and Carrefour each think it is likely it will become a major player in Chinese retail.

Germany

Wal-Mart also withdrew from Germany in July 2006 after eight years of struggling and hundreds of millions in losses. Wal-Mart had eighty-five stores in Germany that it sold to Metro AG upon its exit, taking a one billion dollar loss in the transaction (Edwards 1). Some of the problems Wal-Mart faced in Germany "have echoes elsewhere" (Landler 2). For example, the strong connection between labor unions and business in Germany was an obstacle that Wal-Mart was never fully able to overcome, as it never established good relations with union leaders. A similar situation in China with organized labor may present an obstacle for Wal-Mart soon. Another problem Wal-Mart encountered in Germany with application to other countries is the risk associated with acquiring local chains (2-3). Problems with the local chains in Germany included unattractive and "undesirable" locations and the routine moving of local chain headquarters that angered German executives and caused many to quit (2-3). Wal-Mart at first hired American executives at Wal-Mart Germany, which proved to be problematic just as it did for Carrefour in Japan. Finally, Germany's "onerous" zoning laws are a "major hurdle" for any retailer, and Wal-Mart's eighty-five stores were not enough to achieve a desirable market share (Edwards 2).

Wal-Mart vice chairman for international operations released a statement almost identical to the one about South Korea, explaining that the German business environment could not provide the "scale and results" they wanted and that Wal-Mart is focusing its efforts in countries where it can have "the greatest impact on our growth and return on investment strategies" (Kabel 2). Wal-Mart's move to leave Germany in addition to South Korea shows that it is paying particular attention to shareholder returns. Asia, mostly China, Japan, and possibly India in the future, and Latin America, including its majority stake in the Central American Retail Holding Company, are the places where Wal-Mart is shifting its finances and expanding, presumably in this continued effort for expanded shareholder returns (Kabel 2-3).

Lessons

Wal-Mart's "inability to compete with established discounters" such as Germany's Aldi and Korea's E-Mart has taught Wal-Mart that it needs to "bulk up" and buy majority holdings in existing retailers to give it a large number of competitive stores in any country (3). Wal-Mart says this large scale strategy gives it more leverage with local suppliers, as it has in the case of Brazil where Wal-Mart is now the third largest retailer. Wal-Mart has been the most successful in the countries where it entered in large scale, namely Mexico and Britain (3). In contrast, Wal-Mart's lack of profitable market share in both South Korea and Germany was a major factor in its decision to leave, and in turn, invest in countries like China where it could potentially have a sizeable and lucrative market share.

9. FINDINGS

A. INTERVIEW SUMMARY

Table 9-1 Interview Summary

	Location	**Interview Contents**	**My Observations**
COSTCO	Amagasaki, Hyogo	With Manager Sakai; Plans to open 1-2 warehouses every year for next 10 years in Japan; Novelty of American-style shopping; Advertising done by word of mouth; 50% of goods are imported; Shoppers know Costco has “good quality and low prices;” Inexpensive home delivery service	Higher percentage of American expatriates shopping there than percentage of expatriates in Japan; Unique retail style in Japan, no competition; Not enough shoppers
SEIYU	Oji, Nara	With Manager Yoritsu; Changes by Wal-Mart to improve the store are successful; EDLP is not working in Japan; Cost cutting measures such as an increase in part-time employees are helping the company; The retail regulation laws are making it difficult to build new stores, so must improve existing ones; Future plans to hire Japanese students that have studied in the U.S.	Does not look as much like an American Wal-Mart as expected; Shopping centers are the future in Japanese big-box retailing; Large, new store with many shoppers
TOYS “R” US	Ibaraki, Osaka	With Manager Yoneda; 250 stores in Japan by 2010; Close relationship between TRU Japan and TRU U.S., but not direct control; Peak sales times change in Japan often- no regular sales like in the U.S. at Christmas; First retail law helped TRU (could extend business hours), but new location law could cause problems if TRU wants to build new stores; U.S. TRU more successful than TRU-Japan	Store resembled U.S. versions; Shared location with McDonald’s; Young manager was not as knowledgeable about the history; TRU-Japan will be affected by U.S closings

Source: Interviews (Sakai; Yoritsu; Yoneda)

In the spring of 2006 I did three interviews in the Kansai region of Japan in Japanese, translated by Eriko Takeuchi. The first interview was at Costco, the second at Seiyu, and the third at Toys “R” Us. We asked similar questions at each interview divided into topics. We always began by asking personal information about each manager such as his job title and duties and how long he has been an employee of the retailer. We then asked questions about the retailers’ plans for expansion within Japan and what the obstacles to success for that retailer have been so far. We followed with questions regarding marketing strategies and what each manager thought were the most important differences between the Japanese and U.S. market. Also, we asked them about the Large-Scale Retail Store Law and that Large-Scale Retail Store Location Law and how these laws have affected their company. The interview at Seiyu was, by far, the longest and we asked the manager additional questions regarding the changes being implemented by Wal-Mart including EDLP, part time employment, importing products, own-label brand image, special services, technology, and distribution.

After reading many articles about the differences between the Japanese and U.S. market, it was interesting to hear the managers emphasize the similarities. They all seemed to be confident about their companies' business models working well in Japan. The manager at Seiyu said discounting was becoming more popular in Japan, contrary to many articles I read, but he agreed that EDLP was not working. The manager from Toys "R" Us surprised me when he suggested Toys "R" Us-Japan may be having some of the same difficulties as Toys "R" Us in the U.S. even though they are not under the control of Toys "R" Us in the U.S. The most surprising thing about Costco was that they do minimal advertising, and it seemed that many Japanese people I talked with had no interest in shopping at a store that sold them more than they need.

Before the interviews, I was under the impression that the Large-Scale Retail Store Law had prevented U.S. companies from coming to Japan, but I later learned it did not do this directly. It placed restrictions on all large-scale retailers, whether they are foreign-affiliated or Japanese, and regulated policies such as business hours and store closings. It seems that regulation was not the only reason foreign-affiliated retailers did not fight their way into the Japanese market until the 1980s. It was a combination of factors including advances in technology, globalization, changing consumer needs and lifestyles, stockholder demands and the prospect of making money in the world's second largest market that brought foreign big-box retailers to Japan and put pressure on the Japanese government to deregulate the retail sector. Primarily, understanding the obstacles and what does not work are the significant factors in predicting large-scale retail success.

B. OBSTACLES TO SUCCESS FOR FOREIGN AFFILIATED RETAILERS IN JAPAN

Japan is still a difficult market for foreign retailers to penetrate even after the past decades of deregulation and opening of the market. Foreign direct investment in Japan is only three percent of GDP, compared to twenty-two percent in the U.S. and thirty-seven percent in the U.K. (Pilling 1). The Japanese market today has a number of obstacles that foreign-affiliated large-scale retailers must deal with effectively to become successful. The number of foreign-affiliated retailers that fail in the Japanese market today illustrates just how difficult it can be. On the other hand, about half of the foreign retailers in Japan are still in business and some have become very successful like Toys "R" Us. Others, like Wal-Mart, are still losing money. Experts cited in an article from the *Financial Times* say the main obstacles encountered by foreign-affiliated retailers are difficult government regulations, the difficulty of anticipating the rigorous and constantly fluctuating Japanese consumer demands, and "the problem of being an outsider in a society where [being] and insider can be everything" (1).

All foreign retailers want to know—is there a recipe for success in Japan? The short answer is "no;" there is no easy solution and not enough success examples to come up with a clear formula says one analyst (1). The different examples of success and failure for various types of foreign-affiliated retail companies have not laid out a clear "pattern" of what to do or what not to do (1). However, many sources have said that thorough market research and preparation as well as the "go-it-alone" strategy as opposed to partnering (although there is disagreement on this point) with a Japanese firm have been the key to many companies' success (1).

Expert Analysis: Three Hurdles

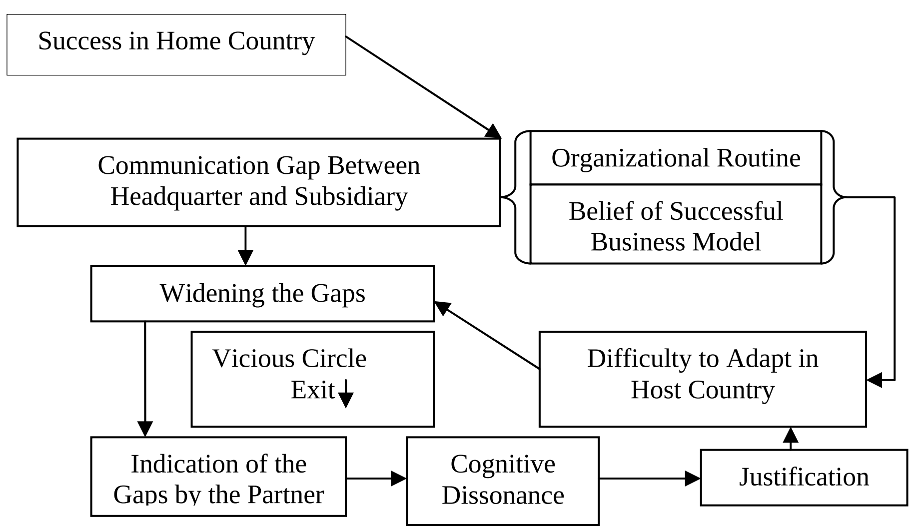
One case study by Yoshinobu Sato, a Professor from the University of Marketing and Distribution Services in Kobe, Japan, printed in the *Journal of Global Marketing* in 2004, summarizes three "hurdles" foreign companies face in Japan. The first obstacle is "the realization of customer satisfaction in a host country" (Sato 38). Many foreign retailers find it difficult to adjust to the different "economic, social, and cultural" context of Japanese consumers' needs (38). For example, Carrefour failed partly because its product selection did not meet the regional needs and discerning tastes of the Japanese consumer. Costco could face a major challenge because its product size is enormous compared to the Japanese standard product size. Too many foreign retailers attempt to introduce the same store layout and product selection from their home country into Japan, and this never works.

A second major obstacle from Sato is whether or not the foreign retailer can apply its strengths in management and other business processes that made it successful in the home market, to Japan, and whether these strengths can help the retailer meet Japanese consumer demands and offer the right product selection (39). This obstacle causes problems most commonly when the foreign retailer incurs extraordinary costs in trying to change products or store layout. Wal-Mart faced this obstacle when it spent millions of dollars in FY 2006 improving the look of existing Seiyu stores and building new stores that more closely resemble those of Wal-Mart in the U.S. Wal-Mart's difficulty in applying its Every-day Low Prices, a strength of Wal-Mart in the U.S., to the Japanese market due to the convoluted distribution network in Japan and Japanese consumer tastes is also a manifestation of this obstacle.

Third, even if the foreign retailer responds to Japanese consumer needs, it still may not have "competitive power" in Japan based on its available resources and business process. An example of this is the case of Sephora, the French cosmetic retailer, who failed in Japan. Sephora had a strong competitive advantage in Europe and the U.S. as a "category killer" in cosmetics, but was unable to gain the same competitive advantage in Japan due to disputes with manufacturers and failure to attract customers (28-9, 39). Sato cites Toys "R" Us as the example of a company that successfully jumped these three hurdles by offering the right product selection to satisfy consumer needs and by sustaining its competitive advantage (39).

Sato also tackles the question: "Why do [foreign-affiliated retailers] face such difficulty in adapting and changing their business model in Japan?" (40). This issue is significant considering this is the reason many retailers fail. Sato explains the work of other experts on the issue of why companies cannot or will not adapt in a foreign country, like Carrefour in Japan, and illustrates the reasons in Figure 9-1.

Figure 9-1. Reasons Foreign Retailers do not Learn to Adapt in the Host Country



Source: Figure created by Yoshinobu Sato (Sato 42)

This flow chart shows that the global retailer is motivated by success in its home country to enter the foreign market and believes in the "superiority" of its business model and sees no reason to change it (41). When the business model is not successful in Japan, the retailer's Japanese partner firm may recommend that the foreign retailer change its business model. This causes "cognitive dissonance among high-level management" at the headquarters because the managers think highly of their business model and think changing it may result in failure (41). The foreign retailer's top management at its headquarters in the home country justifies not changing the business model, which overrides the retailer's management in Japan, who may want to change the business plan. Thus, the company's venture in Japan encounters financial losses and is destined for failure. Toys "R" Us was able to successfully "adapt" its business model to Japan and exit the "vicious cycle," but Carrefour was not (42).

C. FUTURE OF WAL-MART/SEIYU: BACK IN BLACK?

Wal-Mart's Chief Executive Lee Scott says the driving force behind Wal-Mart's international success is sticking to Sam Walton's principle of "saving people money so they can live better" (Gogoi 1). Scott also said most of Wal-Mart's future growth is going to be international as large operations will be emerging in China and India (1). Domestic growth has slowed down to a crawl, falling for four quarters in 2006, and although Wal-Mart has been pushing everyday low prices more, it is not feasible for Wal-Mart to see higher growth by selling more stuff at lower prices to the same customers (2). For these reasons, international expansion is much more promising for Wal-Mart, despite the setbacks in South Korea and Germany.

The future of Wal-Mart/Seiyu rests on its ability to get back in black and return to profitability. In section 5 I cited that Wal-Mart/Seiyu estimates a profit of about 800 million yen for 2007, which would be a big change from the almost 56 billion yen (467.5 million USD) loss in 2006 (“Losses” 1). Wal-Mart seems to be optimistic about a return to profit every year, even after continued losses. The sales increase in 2006 for “existing-store sales” is a good sign, and if sales continue to increase in 2007 and Wal-Mart does not have to spend 49.3 billion yen on “cleaning up” its balance sheet again, a return to net profit, however small, is likely (1).

Another important variable in Wal-Mart/Seiyu’s success or failure is future acquisitions in Japan. Wal-Mart said its main reason for leaving South Korea and Germany was that it was not able to reach the scale and market share it needed, and Wal-Mart needs to avoid repeating this in Japan. Ian Rowley of Business Week’s latest article headline says it all: “Japan: Wal-Mart’s Looking for a Partner – Again; Slow sales indicate the retailer’s style isn’t catching on with consumers; A stake in the Daiei chain might change its fortunes” (1). Wal-Mart has been desperately searching for another partner in Japan, but has been competing with domestic retailers like Aeon for merger and acquisition opportunities, such as the ten to fifteen percent stake in the retailer Daiei. Aeon ended up acquiring the stake in Daiei and this new partnership will be a big obstacle for Wal-Mart/Seiyu and its growth plans.

D. SUMMARY OF FINDINGS

The purpose of my interviews and research is to answer my questions about the obstacles to success for Wal-Mart, Costco, and Toys “R” Us, and Carrefour in Japan. These obstacles are (1) the fastidious Japanese consumer with tastes that change often, (2) inability of the retailer to make changes and adapt to the Japanese market, (3) competitiveness among retailers, (4) government regulation, and (5) the retailer’s inadequate knowledge and research of the Japanese market. Toys “R” Us was successful because it adapted its business practices and marketing strategy to the Japanese consumer, partnered with McDonald’s Japan, reduced costs by bypassing many levels of the convoluted distribution network, and was able to function separately from Toys “R” Us in the U.S. In contrast, Carrefour failed because it did not adapt before the company ran into financial difficulties. It did not enter the market with a Japanese partner, change its product selection to fit the market in a way that was cost-effective, gain the trust of the Japanese consumer, or offer any unique to the market.

Now it is up to Wal-Mart to make Seiyu a worthwhile venture and profitable investment. Wal-Mart needs to be flexible about its business plan in Japan and not focus excessively on making EDLP work or on Americanizing the store layout. As U.S.-based retailers, Wal-Mart and Costco have the ability to offer a truly unique shopping experience to Japanese consumers. Costco has capitalized on this selling point by strictly keeping with its store design from the U.S. Since Wal-Mart purchased controlling interest in over 400 existing grocery stores, it has been costly for them to update the appearance of the stores. Now that these renovations are complete, Wal-Mart needs to focus on expanding its market share by improvements in marketing, cutting costs in distribution, capitalizing on its superior technology, and acquiring interest in additional Japanese retail companies. Market share is the customary measurement for success of Japanese companies, and both Wal-Mart and Carrefour have stressed the need to obtain sizeable market share in any host country in order to make the endeavor profitable.

10. CONCLUSIONS

It seems that everyone wants a stake in the newly accessible and second-largest retail market in the world. Between 1980 and 2003, 79 foreign retailers entered the Japanese market and thirty-nine percent have been successful and grown into chains with at least ten outlets ("A New Era" 15). The darker side of this story is that thirty-eight percent eventually withdrew from the market. Judging from statistics like these, there must be a clear line that separates the winners from the losers. Figuring out what that line is can be tough for foreign firms, but if a company truly wants to succeed in Japan, it must follow the "tried-and-true" formula. This means conducting "comprehensive market research" and "covering every base from consumer preferences to the best commercial locations and most effective sales channels" (15).

Partnering with a Japanese firm can be beneficial for some companies such as Wal-Mart and not doing so may hurt a company's chances, as in the case of Carrefour. Foreign firms that decide not to go with a partner get the advantage of being able to make quick decisions, but do not get access to the invaluable experiences and know-how that a Japanese partner can provide. Most importantly, a foreign company that thinks it can come into Japan and open up a store with the exact same format and products it uses elsewhere in the world is in for a shock, as this method, based upon history, is simply not going to work. Japanese consumers have been known to accept and embrace foreign companies and brands such as Louis Vuitton, Coca-Cola, and even Toys "R" Us, but the qualities that makes these companies stand out is their dedication to the consumer and their ability to offer something exciting and unique to the market.

In summary, this project incorporates interviews I did in Japan and secondary research data to discover the major obstacles to success that U.S. and European big-box retailers face today in penetrating the Japanese market. I began with a preliminary discussion of the current global retailing situation and an overview of Japanese retailing, retail legislation, and the Japanese consumer. Next I followed with an explanation of research methodology and my interviews. I then discussed the individual experiences of Wal-Mart, Costco, Toys “R” Us, and Carrefour in Japan and evaluated the reasons for Toys “R” Us’ success and Carrefour’s failure. In the chapter on findings I merged the data from the interviews with the individual retail discussions to derive generalizations about the obstacles to success in Japan. I also speculated about whether or not the Wal-Mart model will work in Japan. The global retail marketplace and the Japanese market are changing at a rapid rate and it is possible that Wal-Mart could sell out and leave Japan any day. At this moment though, it appears they are effectively implementing a long-term plan for business in Japan, and Costco and Toys “R” Us are undertaking similar endeavors.