Japanese Department Stores: A Failure in Globalisation

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Globalisation for Japanese department stores has been far from successful compared with UK grocery retailers such as Tesco and Marks & Spencer; Japanese convenience stores such as Seven-Eleven and Family Mart; and Japanese manufacturers such as Toyota and Sony. However, Japanese department stores have been around since the globalisation of Japanese enterprises began. The managers of department stores carefully considered their overseas market and their international activities. Although they made a decision to adopt this kind of strategy, they did not, until recently, conduct a full-scale globalisation operation. This paper traces the globalisation process that Japanese department stores underwent, and examines the impact that this process had on them. In this study, it will become clear why Japanese department stores failed in their attempts at globalisation, by analysing the significant turning points in their history.

The Early Development of Department Stores

Department stores were in the vanguard of foreign trade in Japan. After the Meiji Restoration, Japan became more outward-looking in the late 19th century. Some managers at large dry goods stores, the predecessors of department stores, went to Europe and the US in order to obtain training in Western-style store management and learn skills to improve Japanese production systems. By the end of the 19th century, some of these managers had opened overseas branches in Europe with expatriate staff to import Western products and samples of merchandise to Japan, and to trade textile products with European countries. They clearly recognised how advanced Western manufacturers and retailers were, and then triggered the establishment of their associated companies such as Mitsui and Iida (the predecessor of Marubeni) and aimed to catch up with Western department stores (Mitsukoshi [1990], Takashimaya [1941]).

In the early 20th century, some large dry goods stores such as Mitsukoshi and Takashimaya revolutionised retailing by transforming themselves into department stores. They modernised their outlets by introducing sales innovations such as sales displays and a fixed price policy – as exemplified by Western specialty stores that grew into department stores – and by expanding their merchandising with imported products.

Wannamaker in the US, Harrods in the UK, and Bon Marché in France were some of their target department stores. Japanese department stores caught up with these stores through the adoption of Western-style management and products, and in doing so, contributed not only to the development of retailing, but also to the modernisation of the Japanese lifestyle. Therefore, Japanese department stores symbolised the westernisation of Japan, and this relationship with Western countries heavily influenced the development of Japanese department stores (Fujioka [2011, forthcoming]).

Developments During the Second World War

Sales in Japanese department stores declined from 1941, due to the conditions brought about by the Second World War (See Table 1). Sales amounted to 886 million yen in 1941 and decreased to 462 million yen in 1945, approximately halving over four years. This decline in sales was directly responsible for a slump in consumer demand, and was due to several factors: first, there was little merchandise in the stores because manufacturers only produced essential products in the newly controlled economy; second, many sales clerks had been inducted into the army under the National General Mobilisation Act; and third, sales areas were limited owing to them being taken over by the military and used as munitions factories. As the war situation worsened, the Japanese government introduced a rationing system, which meant that department stores could no longer fully carry out their business. Furthermore, department stores' exhibition spaces, which characterised modern and Western retailing, were exploited in a military context by the government.

To defuse this situation, major department stores such as Mitsukoshi and Takashimaya found a way to tap the market in other Asian countries, particularly China and Korea. In 1932 Japan established Manchuria in China, and the Japanese army stationed in Manchuria invaded China in 1937. The outbreak of war between China and Japan triggered the department store's launch into China. As Table 2 indicates, the amount of imports in Manchuria increased, and imports from Japan also grew (Osaka Chamber of Commerce [1934]).

The Japanese army and the South Manchuria Railway Company required suppliers and importers of goods such as bench seats for trains, interior goods, food, military and civilian clothing, camping goods, and so on. The Japanese Trading Agency sounded out several department stores for this logistic support system and some were able to meet these demands. Japanese department stores have a 'Gaisho' department; the word 'Gaisho' means 'external customers', and their sales clerks would visit the homes of their loyal customers or the offices of loyal companies to take their orders, like a personal shopping service. At that time, the Japanese government, with its national policy concerns, was one of the Gaisho's loyal clients. The other important department was the trading department, from which the wholesale division could trade with other companies, rather than with individual customers. This trading department could produce its own products, such as clothing and unique furnishings, with the associated manufacturers of the department store. The networks of these departments were precisely the reason that department stores were able to meet the increasing demands of the army and military companies in Asia.

For example, Takashimaya opened a total of 25 branches in Korea and China, including Seoul, Beijing, and Shanghai, and expanded its business in East Asia by making a deal with military companies. The trading department took a central role in these overseas branches. It had a workforce of 141 Japanese employees in 1938, which grew to 417 in 1944, and in addition it hired local staff. This increased workforce in Asia contrasted sharply with the declining workforce in Japan; 1006 employees in total 4131 employees were inducted into the army in 1944. Sales in overseas branches amounted to 5 million yen in 1938 and increased to 15.8 million yen in 1941, remaining at this level for three years (see Table 3). After the beginning of the Second World War, Takashimaya tried to produce textiles, clothing, and furniture for the army on site, because it became difficult to trade products freely between Japan and other Asian countries. Takashimaya promoted local empowerment, and these overseas branches became vital stores during the War. Sales in the overseas branches accounted for 67.1% of its total sales in the second half of 1944, and this rapid increase pushed Takashimaya's sales in that year to the level of its peak sales in the pre-war period (Takashimaya [1982]).

Mitsukoshi opened a sub-branch in Seoul in 1906 and another in Dalian in 1928; both of these sub-branches managed to upgrade to become branches in 1929 – the first to be established overseas – as their businesses were thriving at the time. While the sales area of each store was approximately 7,500 square metres, equal to the Sapporo store in Japan, sales in the Seoul branch amounted to 11 million yen in 1943, compared with 6.8 million yen at the Dalian branch, and only 2.9 million yen at the Sapporo branch. These overseas branches successfully covered the shortfall caused by the shrinking domestic market. Main stores in Japan had been converted to arms companies under the control of government, selling only essential products, and holding military exhibitions in Japan. In 1945 Mitsukoshi's largest store in terms of sales remained its flagship store in Nihonbashi, but the second largest store became the overseas store in Seoul, overtaking the Osaka branch, which had been its other flagship store, established for as long as the Nihonbashi branch. This meant that Mitsukoshi came to rely heavily on sales in its overseas branches during the War (Mitsukoshi [2005]).

Japanese department stores viewed the Asian market as a strategic one that could complement the shrinking Japanese market. Department stores were suitable companies to develop the market in these countries because they had appropriate products and the necessary organisation to be able to respond to international activities. When the War ended, they had to close their overseas branches, but they could then resume their business in Japan with the gains from these Asian activities; department stores had gained enough resources to be able to overcome the disastrous domestic market and develop their sales in the post-war reconstruction period. They mirrored the Japanese government's war policy by capitalising on Japan's expansion of territory, and thereby succeeded in maintaining their market position and level of sales due to the increase in sales from Asian branches during the War. They were therefore able to smoothly recover their business after the Second World War.

Development in the Era of High Economic Growth

Japan expanded at a high average annual real economic growth rate of approximately 10% between 1955 and 1964 driven by heavy industries, and by 1968 it had the second largest gross national product in the world. High economic growth was accompanied by increased incomes, and consumer confidence was beginning to rise. This positive situation allowed consumers to demand quality products and services, and to afford a Western lifestyle. With this high economic growth, all kinds of retail sales increased rapidly, as shown in Table 4. According to the Census of Commerce, the total sales of all retail stores amounted to 3.5 trillion yen in 1958, increasing to 6.1 trillion yen in 1962, and growing to 21.8 trillion yen in 1970: a sixfold rise in the total sales of all retailers over twelve years.

In this era of high economic growth, many new retail formats such as supermarkets were introduced in Japan, in order to meet the strong consumer demand. Not only did these new retailers find a market in Japan, but department stores also increased their sales during this time, as shown in Table 4. Sales of department stores amounted to 10.5 billion yen in 1947, increasing to 109.5 billion yen in 1951: an approximate tenfold increase in four years. Following this, sales continued to grow rapidly, and boosted from 407.5 billion yen in 1960 to 1.8 trillion yen in 1970. The percentage of total sales across all retail stores accounted for by department store sales decreased, owing to an increase in sales from other retail formats; nevertheless, department stores continued to grow their sales until 1991 (Japan Department Stores Association [2002]).

McNair and May [1976] indicated that existing retail formats have to move towards the higher end of the market to avoid the intensive competition that ensues when a new retail format enters an existing market. Japanese department stores therefore needed to move upmarket with luxury merchandise, so that they could coexist with supermarkets in the growing market at the time. In the 1960s, high economic growth saw many technical innovations, and the Japanese lifestyle changed dramatically with numerous new products such as ready-made clothing, televisions, washing machines, Western-style houses, and Western food. Customers wanted to embrace and develop modern and Western-style consumption. In this climate, department stores were at the cutting edge of fashion in Japan, and created a new lifestyle for their high-end customers (Isetan [1990]).

In the process of upgrading their merchandise, department stores recognised the effects of their overseas branches, and made new forays into Europe and the US, and also returned to the wider Asian market. Takashimaya opened a store in New York in 1958, Daimaru opened its Hong Kong store in 1960, and Mitsukoshi established a Paris branch in 1971. These overseas stores had two significant roles. Their first role was to expand the domestic store's merchandising: expatriate staff were stationed in these stores in order to find out about new fashion trends and new brands of young up-and-coming fashion designers. As this high-end merchandise began to create a distinctive position in the market for department stores, there was strong pressure for them to maintain this position by continuing to effectively source and import luxury brands for their domestic stores via these Western branches.

Their second role was to cater for the Japanese 'Gaisho' customers. As previously mentioned, the Gaisho department had many loyal customers, and these were extremely high-end customers who made huge annual purchases. Some of these loyal customers travelled abroad for work or, increasingly, for sightseeing, due to the developing economy and larger incomes. So while Japanese department stores had to search for brand new Western fashions to cater for their domestic market, which had extended upwards from its mass market, they also entered this overseas market to cater for their loyal customers. This was the ethnic enclave market, and it soon became an important focus for department stores, as the direct result of the new competitive advantage that their high-end marketing strategy had given them.

The Ethnic Enclave Market

Gaisho departments' loyal customers were always the main customers of overseas branches, as they were of domestic stores, and their average incomes were higher compared to customers of other retail formats such as supermarkets. The London Mitsukoshi therefore opened its store in a highly fashionable location in Piccadilly Circus at the lower end of Regent Street in 1979. This shop catered for both Japanese tourists and Japanese residents – who were mainly loyal Gaisho customers – and provided a service equivalent to that of Japanese stores. Japanese tourists needed stores where they could speak Japanese and buy suitable gifts at a one-stop shop when they visited London to go sightseeing. In addition, when loyal customers were assigned to work in a UK office, they wanted Japanese shops in London to provide them with their familiar Japanese products.

Thus, the London Mitsukoshi became an ethnic enclave (Davis and Jones [1993], Kawabata [2000]), and simply transferred its operation from Tokyo to London. Department stores satisfied Japanese customers' desires to be able to enjoy shopping in the same way they can in Japan, without enduring the difficulties of having to visit many different shops trying to find sizes that are suitable for Japanese figures. Sales in the London Mitsukoshi increased with the growth of the economy through the loyalty of their customers; some customers would spend around 10 million yen at the London Mitsukoshi in a single shopping trip, and at a time when the yen was a very strong currency. These customers were therefore significant contributors of business, and Japanese department stores responded to their demands successfully.

In 1964 the Japanese government decided to partially liberalise sightseeing travel, and as a result, Japanese tourists increasingly visited Europe with their larger incomes, especially following the lifting of restrictions on taking foreign currency out of Japan. Most tourists went on organised group tours, but were frustrated with many aspects of European culture such as the food, the toilets, clothing that did not fit them, and different currencies and languages in each country; they also had to contend with the busy schedules of the travel agency, which would squeeze in visits to several countries in a single trip. Japanese department stores responded to the requirements of these loyal customers by opening stores in Europe. At these ethnic enclaves, tourists could enjoy shopping in Japanese, have a Japanese lunch, and use a toilet in comfort. And the more the Japanese head office focused on its loyal customers, the more valuable these European stores became.

However, these Western branches eventually began to suffer due to changing external circumstances. Tourists, especially those on organised group tours who were the principal customers of these stores, decreased in number after the 9/11 terrorist attacks in 2001; and expatriate employees were younger and fewer than previously, due to the Japanese economic depression. These branches were therefore forced either to close or to change their business strategies, as they relied so heavily on Japanese tourists and residents. Daimaru decided to close all its overseas branches in order to improve its financial situation. Mitsukoshi looked into various possibilities for maintaining its overseas branches, but it eventually ran out of ideas, and the Frankfurt Mitsukoshi and the Munich Mitsukoshi closed in 2008. However, the London Mitsukoshi managed to survive by deciding to expand its range of customers to include Taiwanese, Chinese and South Koreans, among whom Mituskoshi was well-known and had a good reputation from its popular stores in their own countries. In addition, the London Mitsukoshi decided to let some sales space to other shops to gain stable revenues, and to this day, it has been succeeding in this strategy.[1]

Some studies examined this process as a prehistory of Japanese retailers' globalisation (Uemura [1993]). However, the overseas developments during this period were not intended to be a preparation for globalisation. Japanese department stores treated overseas branches as a crucial part of their domestic corporate strategy. In the 1970s and 80s, this type of globalisation was one of the main management issues for Japanese department stores. They needed to be sensitive to the latest fashions in Europe and began importing many new products. They then expanded the sales areas of luxury brands and new brands from Europe at the domestic stores and enhanced the range of merchandising to make it more upmarket. Japanese department stores' global activities did not constitute a period of attempts at full-scale globalisation, however, but rather were an essential process for their development in the late 20th century.

Development in Asian Countries

Asian branches also catered for Japanese tourists and residents. Hong Kong was the major place where Japanese department stores launched first in Asia, because it was near and inexpensive for the Japanese to visit; Daimaru opened a store in 1960, Isetan established one in 1972, and Matsuzakaya launched a store there in 1975. As overseas travel became more popular and the Japanese yen became stronger in the mid 80s, many tourists visited Hong Kong and enjoyed shopping there. Many Japanese department stores launched new branches in Hong Kong and expanded their sales areas, responding to their customers' demands successfully, as the strategies in Europe had also done. Japanese residents in Hong Kong desired the high-quality food and clothing available at these stores, and tourists bought many luxury products there because they were duty-free.

In addition, Asian branches had a different aspect. Some Asian branches added local consumers to their target market, so they were not simply ethnic enclaves. Isetan first attempted to build locally adapted stores in 1972, when the Singaporean developer, Apollo Enterprise, requested that Isetan open a shop at its new estate. Isetan had to consider the objectives of its launch in this country: first, to contribute to society in

[1] The interview with Hiroshi Watanabe, managing director of Mitsukoshi UK, was conducted on 17 November 2009.

Singapore; second, to provide suitable products for the locals and foreigners, as well as the Japanese; and third, to contribute to the development of Singaporean retailers through competition (Isetan [1986]). Its merchandise consisted of three parts: a third was from Japan, a third was supplied locally, and a third came from foreign countries. Isetan could thus adapt its business into the local market, rather than just transferring the Japanese retail format. It recruited local staff and reduced administrative costs, so that it could achieve a higher operating margin on site, rather than through stores in Japan. Isetan later went on to eventually run four other medium-sized stores in Singapore for local customers.

Isetan's adaptation into the local market contrasted with Takashimaya's outlet in the same country, which was mainly for Japanese residents and tourists in Singapore. Isetan carefully researched and attempted to accommodate the needs of the local market, and this was key to its success in Singapore; but at the same time, it decided to retain Japanese-style sales methods such as a one-price policy and a high level of service, which were new to Singapore. As a result, Isetan created a hybrid store that was a fusion of local demands and sophisticated Japanese sales methods at the time. This transfer of knowledge from Japan was managed as a joint venture through the direct investment of a Singaporean company. However, Isetan did not manage to acquire sufficient know-how to be able to adapt this format to other local demands, and was forced to close its store in Hong Kong in 2006.

Similarly, Mitsukoshi opened a shop in Taiwan in the form of a joint venture in 1987, and established its position in this market. Its success was based on the transfer of Mitsukoshi's store brand and on its original strategy. Mitsukoshi implemented a different marketing strategy from local retailers, as well as an adaptation strategy. It also reduced administrative costs and met local demands, and attempted to keep Japanese sales methods, as Isetan had successfully done. Furthermore, it built a huge outlet, which other stores simply could not compete with, and dominated the sales area with its merchandising power. However, these particular branches are the only examples of the successful adjustment of Japanese department stores to a local market.

Japanese department stores used their globalisation strategy to further develop their existing market, but they did not attempt to conduct full-scale global strategies abroad. They strived to compete with domestic department stores and supermarkets in Japan, and saw overseas branches as just a complementary strategy for their domestic market. Daimaru, for example, viewed its Asian branches as simply a stronghold for trading its merchandise.[2] In the 1980s, Daimaru searched for manufacturers and factories where

[2] The interview with Kounosuke Mizuno, who worked for Daimaru, was conducted on

they could produce their own labels to the same high standards as Japanese manufacturers in order to reduce production costs in Asian countries. These Asian branches were well suited for building networks with local business, and also managed to sell dead stock products from Japan. Daimaru and other department stores bought unsellable products at the cheapest prices from manufacturers and wholesalers, and sent them to their Asian branches to sell. In this way, department stores exploited the gap in fashion trends between Japan and other Asian countries, and saw the Asian market as an outlet market and a great source of profit.

However, since Asian countries began to develop their economies, the Japanese department stores' strategy became less effective. As the Chinese economy grew and high-end customers increased, Japanese department stores became more interested in the Chinese market. Isetan launched a store in Shanghai aimed at local customers in 1993, although this first store was forced to temporarily close, because Isetan did not fully understand the demands of the local market or various relevant political issues. However, Isetan went on to expand its business with four branches in China: Shanghai, Tianjin, Shenyang and Chengdu. The Shanghai branch reopened in 1997, and the Tianjin branch first opened in 1993, then moved to its current location in 2006; both of these were successful as a result of their adaptation to the local market, although the other two branches did not do so well. It seems, therefore, that overseas Japanese department stores are now at a standstill, as they have yet to work out a new strategy for tackling rapidly developing countries such as China.

What Did Globalisation Mean to Japanese Department Stores?

From 1945 to 1991 sales in Japanese department stores had increased each year, as shown in Table 4. Sales in department stores amounted to 73.5 billion yen in 1950, having recovered to pre-war levels. At this time 69 enterprises were affiliated with the Japan Department Stores Association, and there were a total of 111 outlets in Japan. After the rapid growth of the Japanese economy, sales in department stores reached 1.8 trillion yen in 1970, 24.5 times greater in twenty years. Affiliated enterprises also increased to 120, while the total number of outlets rose to 192: a jump for both 1.7 times greater than in 1950. In 1980 sales increased to 5.7 trillion yen, the number of affiliated companies grew to 125, and the number of outlets to 236. By 1991 sales reached 9.7 trillion yen, 133 times greater over 41 years. In the 1980s some local department stores had been forced to close or had been absorbed by major department stores, and so the number of companies decreased to 113; but outlets nonetheless increased to 268 in 1991 (Japan Department Stores Association [1998]). There was therefore sufficient

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development for department stores to focus on the domestic market.

This strategy of concentrating on sales development indicates the reason for the failure in globalisation. First, this development did not rely on a chain store operation, such as convenience stores embraced in Japan. Department stores developed by adapting to the local market and strived to gain dominant power in the retail trading area. Merchandise, store size, and store operation varied in each store, in order to adapt to local demands (Sakata [2009]). They preferred to devote their attention to increasing sales and obtaining power over wholesalers, rather than introducing a standardisation of their store format; sales were the most important criteria for department stores looking for a competitive advantage. Department stores therefore did not set a standard store in Japan, and as a result, could not launch branches overseas with a direct franchise, as convenience stores and fast food restaurants could (Kawabata [2008]). The only alternative was adaptation to the multinational market, which required much more time and capital than a franchise system based on standardisation (Dawson [1994], Toba [2009]).

Second, department stores' globalisation was aimed at achieving an upmarket expansion of their merchandise for their loyal customers. While these aims were indeed satisfied by the globalisation of department stores, their gross margin did not increase in line with their sales. The retail format of the department stores upgraded with new brands from Europe and the US, successfully differentiating them from supermarkets, although only generating a very small margin of profit in the process. Although the expansion of luxury brands contributed to heighten their high-end store image and differentiate them from other retailers, the sales areas of luxury brands were concessions controlled by the wholesalers, so department stores could only gain low profits from this. From the 1980s onwards, an increasing number of overseas branches began to emerge, and a low-profit structure became established at department stores in Japan; and it was for this reason that department stores were so focused on attempting to dramatically increase sales.

Conclusion

Japanese department stores have been trapped in a vicious circle. Each decision of their strategy was the right one; but overall, managers at department stores could not make the right decision for further development. Before the Second World War, the department store was the only large, modern retailer. After the Second World War, many retailers were introduced one after another. In order to survive this intensive competition, department stores needed to move upmarket and expand their high-end merchandise. They were therefore driven towards globalisation. Japanese department stores responded to these demands successfully, and introduced many new cutting-edge designers and Western luxury brands in spite of their low profit margins. To increase sales, it was an important strategy to enhance their merchandise with European fashion and Asian products. However, globalisation could not succeed, because they did not impose a standardisation on their retail formats and failed to save the money for direct investments. And this was the reason Japanese department stores globalised their business, even though this globalisation would be difficult for them to sustain.

While department store sales were increasing steadily, nobody noticed this vicious circle.[3] Once their sales decreased and the Japanese retail market downsized, they needed to consider a global strategy to complement the domestic market. At that time Japanese department stores did not have enough strength left to promote globalisation,[4] due to a loss of cash flow. Along with department stores' decreasing sales, some overseas branches closed to improve the financial problem. If their store format had been standardised, there would have been the possibility of launching overseas on a global scale, by introducing a franchise system, for example. And if they had had enough money to invest overseas, they could have acquired local companies to run their overseas branches, or else launched a subsidiary company to run their local outlets by themselves. However, Japanese department stores were not in a position to contemplate these options. It had become impossible to invest directly in the targeted countries as they had been able to in the early stages of their overseas development. Japanese department stores were therefore left to look upon the Chinese market with wistful longing, without being able to reach it.

In his investigations of globalisation, Mukoyama [2009] found that Japanese retailing has made little progress in recent years: Aeon, one of the top retailing groups in Japan, had 56 overseas stores in 2008, representing only 1.1% of its total number of stores; this compares with Tesco, which had 43.6% of its stores overseas, and Carrefour, which had 78.5%. Mitsukoshi had 10 overseas stores, representing 35.7% of its total number of stores, and Isetan had 14 overseas stores (58.3% of its total stores) in 2008. Although they had a higher percentage of overseas stores than Aeon, the percentage of their overseas sales was much lower: Mitsukosh's overseas sales totalled only 1.4% of its overall sales, and Isetan's were just 9.1%, compared with Aeon's 11.2%, Tesco's 24%, and Carrefour's 54.2%. This paper has demonstrated that Japanese department stores have, to the present day, relied too heavily on the sales growth of their domestic market

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[3] There have been a few articles that have noticed this issue. See Toyo-Keizai [1976].
[4] The top Korean department store and retail group, Lotte, learned a lesson from the failure of Japanese department stores. Lotte launched branches in Asian and Russian markets before exhausting their funds. (This is based on an interview with Beak conducted on 1 April 2011.)

to be able to conduct an effective global strategy. But today's steadily declining population in Japan should be a warning sign to Japanese retailers that this will soon have to change, and that their future may depend on paying more attention to the overseas market.

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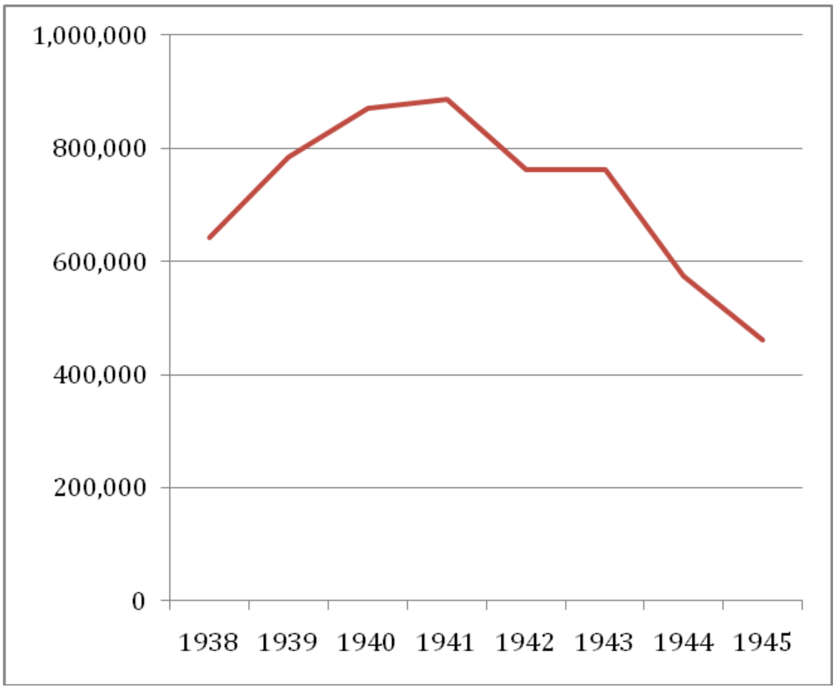
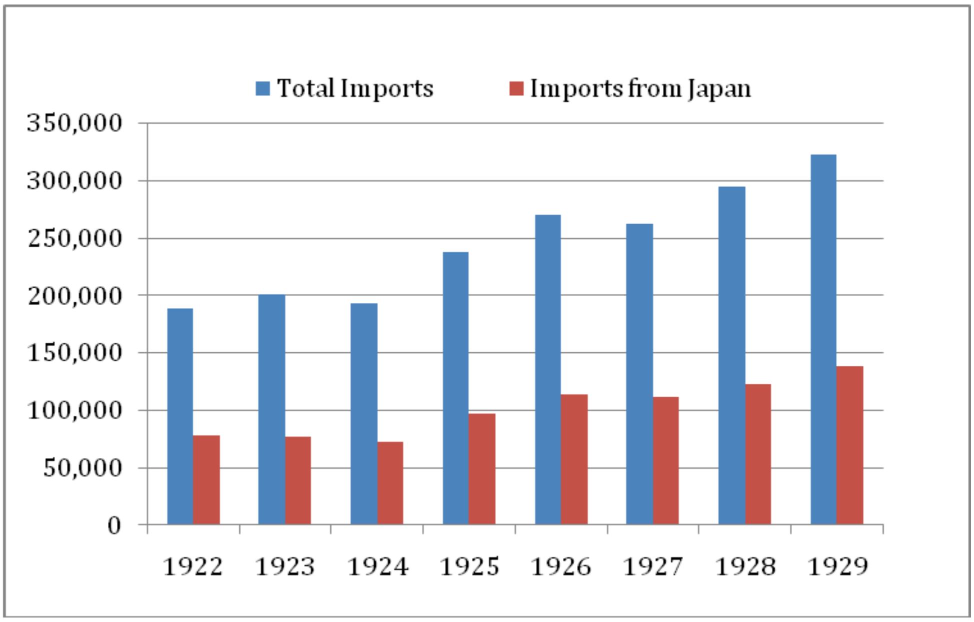
Table 1: Total Sales of All Department Stores During the Second World War

(Thousands of Yen)



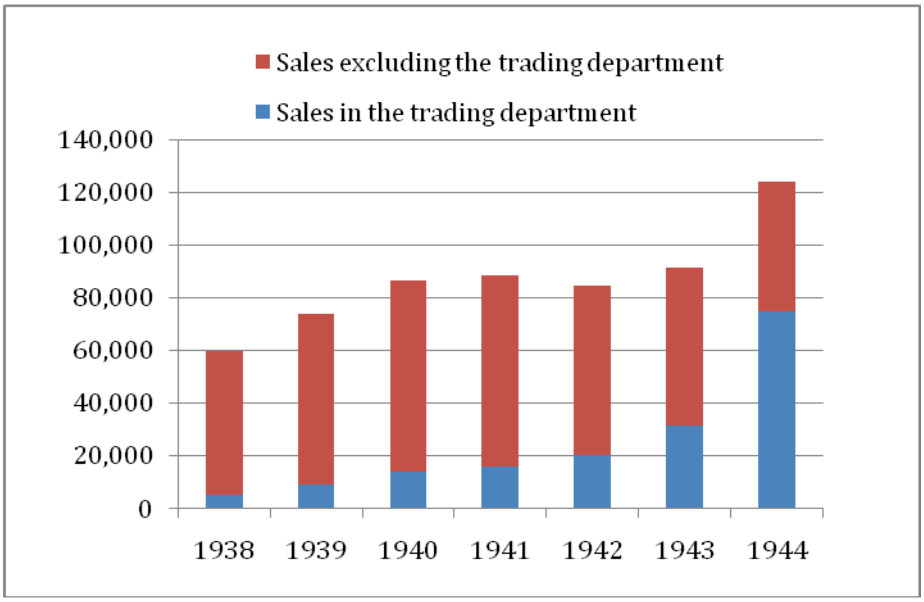
Source: Japan Department Stores Association [1998]

Table 2: Increasing Imports in Manchuria



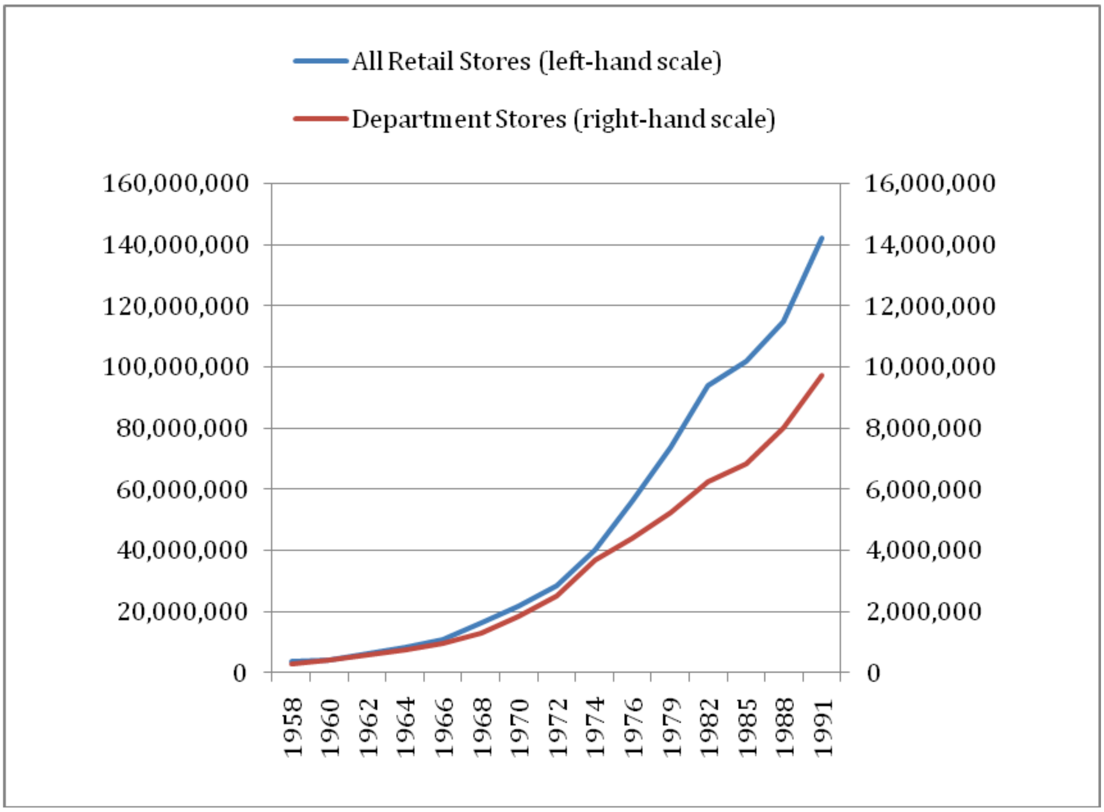
Source: Osaka Chamber of Commerce [1934]

Table 3: Sales in Takashimaya (Thousands of Yen)



Source: Takashimaya (1982)

Table 4: Sales Growth in All Retail and Department Stores (Millions of Yen)



Source: MITI [1994] and Japan Department Stores Association [2002]