



Why Are There So Many Small Shops in Japan?

James Mak and Shyam Sunder

Strolling around Motomachi in Kobe and along Shinsaibashi-suji in Osaka or near Kawaramachi-dori in the historic Imperial capital of Kyoto, a visitor to Japan is impressed by the large number of small specialty shops and restaurants that line the streets. Surely, Japan must be a nation of small shopkeepers.

Despite the country's high prices, one of the most enjoyable activities for visitors to Japan is shopping, or at least "window shopping." The Japanese also love shopping. On any Sunday in any of Japan's cities, you can barely make your way through the throngs of people on its "shopping streets." Best not be in a hurry to get anywhere!

Shops are not only found in shopping streets and arcades in city centers; they are everywhere. You can buy most daily necessities within a short distance from home. Most of the shops are small, and many are mom-and-pop operated, located in small spaces on the ground floor of the owners' private residence. When a visitor, having bought a bag of Japanese rice, wanted to know the appropriate amount of water to cook it in, the middle-aged shopkeeper went upstairs to get the answer from his wife.

Compared to the United States, Japan has over twice as many retail stores per thousand population and Japanese shops average about one-third as many employees and annual sales. In 1994, over half the retail stores in Japan had only one or two employees and over three-quarters of them had less than five employees. Individual ownership accounted for 61 percent of the country's retail stores, but those stores accounted for only 16 percent of total retail sales.

Japan has many large multistory department stores. In recent years, big discount chain stores have begun to proliferate. Large stores that combine a supermarket and a general merchandise department store have emerged under the moniker of "superstores."

Growing even more rapidly are the modern, efficient convenience stores (known as *konbini*), like 7-Eleven. These new, brightly lit stores employ state-of-the-art computer technology for monitoring instantaneously the point of sale of each item in each store in order to determine what needs to be restocked. With such sophisticated equipment, the stores can operate efficiently even with relatively untrained, temporary, and part-time workers. Though small in terms of space, the convenience stores enjoy a high volume of business, selling a surprisingly large assortment of goods as well as services, such as payment of utility bills, photocopying, parcel delivery, discount theater tickets, and even travel reservations. The versatility of the convenience stores, along with a twenty-four hour operating schedule, is pushing large numbers of mom-and-pop stores out of business. They are also taking business away from large department stores.

Why Small Stores?

Compared to the United States, Japan has many more small food stores in relationship to its population. In part, this is because Japanese homes are smaller with limited storage, necessi-

tating more frequent visits to stores for buying in smaller quantities. Fresh food, primarily fish and vegetables, which are especially important constituents of the Japanese diet, also call for frequent purchasing. On average, a housewife in Japan visits a food store five times per week, compared to 1.8 times in the United States.

In the United States, better highways and a higher rate of private car ownership encourage the development of suburban malls and large discount stores along highways in areas of low population density. By contrast, the Japanese rely heavily on public transportation and walking, and so stores are built near train and subway stations and in higher-density residential neighborhoods within walking (or biking) distance from private homes and apartment complexes. Having large numbers of people living nearby also makes it easier for small stores to be profitable in Japan. Small stores are popular because they are easily accessible, provide a high level of personal service and offer easier return policies for defective goods. It is not surprising that Japan's retail industry is dominated by large numbers of small shops.

As for the small mom-and-pop stores, they require modest amounts of start-up capital and employ a large number of retirees. Their employment function is particularly important for Japan because social security benefits, until recently, have been less generous than in other industrialized countries. Moreover, retirement age is low in Japan (see chapter 26), while longevity is high.

The Large-Scale Retail Store Law

Although conflict between large and small stores exists in other countries, small shopowners in Japan have been protected by legislation. Large stores threaten the existence of small stores because they are less costly to operate per unit of sale and thus are able to charge lower prices. Small store owners, however,

constitute a large political interest group in Japan. In 1947, under political pressure from this group of small shopowners, the government passed the first Department Store Law. That law required permission from the Ministry of International Trade and Industry (MITI) before the opening of a department store or a branch store, or even before increasing existing store space. Nonetheless, fueled by the postwar economic boom, the number of department stores rose sharply in spite of the law. Supermarkets, a new type of large retail store that emerged in the 1960s and 1970s, were not subject to the regulations of the Department Store Law.

To amend the earlier law and to expand its coverage, the government passed the Large-Scale Retail Store Law in 1973. It regulated stores larger than 1,500 square meters (16,145 square feet) of retail space. In Tokyo and eleven other larger cities, this law covered stores bigger than 3,000 square meters. This new law did not reduce the level of conflict between large and small stores, however, and so it was amended again to become applicable to stores with retail spaces in excess of 500 square meters (5,382 square feet). Anyone who wishes to build a store larger than 500 square meters must obtain the consent of the neighborhood retailers. The amended law granted small and medium retail store owners virtual veto power over construction of large new stores in their markets. The law also regulated large stores' business hours, holidays, and sales space.

The Large-Scale Retail Store Law did not totally prevent large stores from opening, but in many cases the law increased the time and cost involved in opening a large, new retail store. The delays resulting from the need to complete legal procedures before opening typically averaged thirty-four months, but in some cases extended to ten years.

The new Large-Scale Retail Store Law also did not totally protect individual small retailers from the large retailers. The number of small retailers reached a peak in the 1980s and has declined steadily since then. Part of the explanation is that the children and grandchildren of many shopkeepers have no in-

terest in taking over the family store. Also, the increase in personal ownership of automobiles has heightened consumer mobility and has expanded the geographical area from which a larger store can draw its retail customers.

The overall economic effects of the law are predictable and, in fact, consumer prices were higher than they otherwise would be in an open competitive retail environment. Also, U.S. and other foreign governments have criticized the law for functioning as an entry barrier to foreign companies trying to enter the Japanese retail sector. In response to such problems, the 1989 Structural Impediments Initiative discussions between the United States and Japan brought about Japan's agreement to begin deregulating the country's distribution system, starting with the Large-Scale Retail Store Law.

Reform of the Large-Scale Retail Store Law

Reform of the Large-Scale Retail Store Law began in 1991 with the passage of a new amendment that changed the review and application processes. Since then, the average amount of time needed for processing an application has been eight months. Moreover, any store or store expansion devoted exclusively to the sale of imported goods does not have to gain the approval of other retailers in the area. Additionally, since May 1994, any store under 1,000 square meters (10,764 square feet) is exempt from the restrictions of the law. Finally, the mandatory closing time for large stores has been extended from 7 P.M. to 8 P.M.

Retail industry deregulation, combined with increasing price sensitivity of Japanese consumers due to the burst of the bubble economy in the early 1990s, have spurred the growth of discount retailing. Huge discount stores, such as Daiei, not only enjoy lower costs because of their large size; they also have enough economic clout to bypass the traditional layers of middlemen in Japan's distribution chain, they can import lower-priced foreign goods, and they can use their growing market

power to defy domestic manufacturers' efforts to enforce manufacturers' suggested retail prices. The result is falling prices for the consumer. A can of Coca-Cola, for example, sells for 110 yen in vending machines and 80 to 90 yen in grocery stores. However, Daiei imports a generic cola drink from the United States emblazoned with "Made in America" in big letters and sells it at the introductory price of 39 yen. Gradually, the generic cola is beginning to grab market share.

Reform of the Large-Scale Retail Store Law has also accelerated the entry of foreign retailers into Japan. Toys "Я" Us is often held up as a symbol of a successful foreign retail business in Japan. Since opening its first store in Japan in 1991, Toys "Я" Us rapidly grew to thirty-six outlets in 1995, and plans to have one hundred outlets by the year 2000.

Finally, American-style megamalls are coming to Japan. A partnership of U.S. and Japanese investors recently announced plans to develop four American-style retail-entertainment megamalls in Tokyo and Osaka. The malls will contain U.S. and Japanese retail stores, movie theaters, international cuisine, fitness clubs, and indoor rock-climbing and roller-skating rinks. The partners plan to build ten to twenty malls in Japan in the next decade.

The Landscape of the Future

Deregulation is beginning to transform the retail industry in Japan. For once, in a country where government policies too often have favored producers over consumers, consumers finally seem to have won a round. But with large discount chain stores, foreign retail stores, modern convenience stores, and American-style megamalls sprouting up all over the country, Japan's touristic landscape will no longer be as fascinating to foreign visitors.