

*Increasingly keener competition in Asia among the major Japanese, American, and European retailers with the powerful Asian retailers also joining the competition*

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The number of middle and wealthy class people with purchasing power of more expensive durable consumer goods or services increases in Asian emerging countries because of economic development, and rapid growth in the number of such people is expected hereafter. Major retail markets in Asia become a place where keen competition among major Japanese, American, and European companies, in addition to the local and Asian companies, is underway, just like the Olympic Games, so to speak, under circumstances of ongoing urbanization and shift to a service economy in each country. It is often pointed out that Western companies (Carrefour Group of France, Wal-Mart Stores of the US, TESCO of the UK, etc.) have a large presence as a result of a rapid increase in the number of stores for a short period of time after their market entry, while Japanese companies are often said to enter the markets more prudently and open stores at a slower pace and on a smaller scale.

However the author observes some interesting changes in such trends, and leading companies in Japan including AEON Co., Ltd., Seven & i Holdings Co., Ltd (Ito-Yokado Co., Ltd., and Seven-Eleven), Lawson, FamilyMart, FAST RETAILING CO., LTD. operating the UNIQLO chain, and Ryohin Keikaku Co., Ltd. managing the “MUJI” brand chain accelerate their attempts in a forward-looking manner. Further, leading retailers in Asia, such as LOTTE Shopping Co., Ltd. of Korea and RT-MART INTERNATIONAL LTD. of Taiwan are positively expanding into markets within the region. The author will focus more on hypermarket/supermarket and convenience store business, expressing his personal views on features of strategies and corporate behavior of influential companies in Japan, the US, Europe, and other areas or competitive advantages in the major retail markets in Asia in this paper.

## Activities of the influential foreign affiliated retail companies in Asia

### (1) Western companies: Opening stores at a faster pace and on a larger scale

#### a. Wal-Mart Stores

The largest US-based retailer in the world. Wal-Mart has 5,651 overseas stores in 26 countries at the moment since it expanded into Mexico (its first overseas business expansion) in 1991 and overseas sales account for 28 percent in its overall sales on a consolidated basis. The company becomes highly successful in China, an important market in Asia especially, opening increasingly more stores in the second or third class large cities, etc. It exceeds the Carrefour Group which expanded into China prior to Wal-Mart, in terms of the number of stores.

Wal-Mart's forms of business are large-scale general retail stores ("Supercenters") and mass retailers with a membership system ("Sam's Club") mainly. The author considers that the company's success results from overwhelmingly accumulated more advanced know-how and technologies such as ICT than local companies and practice of localization by making use of the results of organizational learning based on success and failure experience in the past in various countries also including China as such. For example, direct purchasing of farm products based on closer links with farmers, management of "going green" including building energy-efficient stores, reform of simplifying a middle management structure and aiming to create a decentralization system, etc. The author considers that the company is successful in adjusting the previous American centralized business model flexibly according to a situation at local places where it operates business, when it comes to organizational changes especially.

#### b. Carrefour Group

The second largest retailer in the world and the largest one in Europe. The group with 2,819 stores (excluding those in France) in 32 countries in the world opened the first overseas store in Belgium in 1969 and expanded into other European countries and the Americas in the 1970s and Asian countries at the end of the 1980s (into China in 1995). Fifty seven percent of its sales come from overseas. The group overwhelms local companies, which are less competitive, in Southern Europe and Central and South American countries, and many emerging counties in Asia, such as China, and is successful, while its business has been unsuccessful in many advanced countries, etc. or it has withdrawn from there.

In China, it is operating hyper markets and discount stores. The group's strategy for opening stores had been adaptable and expanded its store network rapidly in various forms by permission of regional governments after forming alliance with different local partners in major cities, until it obtained permission of the central government in 2001. The group is in the process of localizing its management, while making use of its experience, know-how, and human resources in Taiwan, its earlier success in business in the Chinese cultural sphere, and placing a high value on local culture and consumption habit, when it comes to its entry into Chinese markets. It is said to aim to be relatively shifting to a centralized management method from a previous decentralized management method for the purpose of full awareness of the company's plan and policy by employees.

#### c. TESCO

The UK based company with over 6,200 stores outside the UK (13 countries) is the largest retailer in its home and the third largest in the world. Its overseas sales account for 34 percent. The company has increased the number of stores in Asia rapidly in recent years as a result of its more active M & A activities. It operates more stores in China, Thailand, and Korea and the number of stores in China soars to 124 especially, despite its short period of operations since 2004. Features of the company lie in its strategy for expanding a range of private brand (PB) products as much as possible through farm management, in addition to the same method of closer links with farmers as other companies. Also the company's know-how on managing and operating companies it acquired in the post M & A process is rated highly.

(2) Japanese companies: Opening stores at a faster pace than before while keeping emphasis on quality of business

#### a. AEON

The company (AEON Co., Ltd.) operates 104 stores including supermarkets in 11 countries (46, 29, and 29 in China, Malaysia, and Thailand, respectively). It plans to make prior investment totaling 65 billion yen, twice as much in fiscal year 2012 as in the previous fiscal year, in overseas business in China, the Association of Southeast Asian Nations (ASEAN), and other countries in FY 2012 based on its plan of "a shift to Asia" aiming to grow rapidly in the Asian emerging markets in the company's current medium-term business plan, although its overseas sales account for approximately six

percent at the moment,

AEON has taken actions, such as establishment of a regional headquarters (AEON group's headquarters in China). Its operations started from February 2012 and AEON also plans to establish headquarters in Malaysia for the ASEAN countries., It opens stores at a much faster pace with the AEON group's united efforts to expand businesses (for instance, finance, credit, leasing business, etc.) in addition to operations of general supermarkets, food supermarkets, shopping centers, and convenience stores. It has already obtained permission for opening stores in Vietnam and plans to open those in Cambodia and Indonesia. The company like the other Japanese retailers has introduced Japan's unique goods such as Sushi, etc.to the local retail markets, while placing a high value on local people's lifestyle or preference.

#### b. Seven & i Holdings

The company (Seven & i Holdings Co., Ltd.) operates stores in 15 overseas countries and overseas sales represent 25 percent, which is higher among Japanese companies. However larger portion of the sales come from operations in the US (23 percent) which it acquired from Southland Corporation, a US company which founded 7-Eleven, Inc., It operates supermarkets and convenience stores in China only in the Asia region (excluding an operation of many convenience stores by non-affiliated companies as an area licensee).

The company operates 13 Ito-Yokado stores as general and food supermarkets in Beijing and Chengdu, the number of which is fewer than other groups examined in this paper. However the author should highlight that its much larger sales per store reflect its extremely efficient and excellent management and highly evaluated. The company's measures include the design and building of bright and clean stores by which it can propose ideas to customers according to each store's trading area and size, the use of selling space, taking into account local events, such as the Chinese New Year and mid-autumn harvest festival, analysis and utilization of information and data by means of ICT, distribution of leaflets, the first attempt to attract customers in China, and introduction of new food culture, including packaging of meat and vegetables and a sale of Japanese type of bean-jam buns.

Seven-Eleven operates approximately 100 convenience stores in Beijing, Tianjin, Shanghai, and Chengdu (excluding convenience stores operated by area licensees in

South China), planning to open stores in Shandong by the end of this year. The company has a policy of establishing two regional headquarters separately controlling its convenience store and superstore operations in China in 2012 and putting in place a system for its positive business development.

#### c. FamilyMart

FamilyMart Co., Ltd. operates convenience stores in six countries or regions and its overseas sales represent 14 percent. The number of stores home and abroad totals approximately 20,000 (of which, about 10,000 overseas stores) in 2012 and it aims to increase the number to 25,000 in 2015 and 40,000 in 2020. The author considers that opening stores overseas is the key to the achievement. Especially the company's target number of stores in China is 4,500 in 2015 and 8,000 in 2020 and the stores' profit contribution target is 20 percent in 2015. It intends to increase the number of stores in China by 50 percent and open stores in the second to third class large cities positively in fiscal year 2012. The company also plans to open stores in Indonesia and the Philippines, aiming to have 13,221 overseas stores in total at the end of fiscal year 2012, an increase in the number of stores by 1,976, compared with a year ago. It utilizes its experience, know-how, and human resources in Taiwan whose culture, language, and consumers' likes and dislikes are quite similar to those in China, as the Chinese cultural sphere.

#### d. Lawson

Currently Lawson, Inc.'s most of overseas convenience stores are located in China where the company expanded in 1996 and this is the first case of opening convenience stores in China by a Japanese company. The company operates 319, 41, and 5 stores in Shanghai, Chongqing, and Dalian, respectively (365 stores in total). Japanese shareholders' had owned a 70 percent holding in a joint venture (JV) when it had originally been formed. Then local and Japanese companies had maintained 51 and 49 percent holdings in it, respectively, from 2003 until Japanese shareholders such as Mitsubishi Corporation got to have a large holding of 85 percent again in 2011 as a result of a change of structure.

Lawson established Lawson (China) Holdings, Inc., a holding company, in May 2012, aiming to establish a network of 500 overseas stores consisting of 400 in China and 100 in Indonesia in the near future. The company's target number of stores in China in 2015 is 1,500 and it places a higher priority on opening stores in the second to third class

large cities of China. The feature of the company is the first introduction of a Japanese-style supply chain model (for example purchase of ingredients for making packed lunches, creation of recipes, and outsourcing of cooking to vendors) to China.

In making a summary of the points above, we see Western companies with a large presence as a result of rapid expansion of operations in size and Japanese companies aiming to achieve steady progress with emphasis on quality of goods competing in the Asian markets. However the latest situation indicates that Western companies are in the process of making efforts to localize their corporate structure and a way of business operations, while Japanese companies expand into more countries and areas positively and increase the number of stores there like AEON or companies operating convenience stores.

### **Features of influential foreign affiliated retail companies and their competitive advantages**

The author hopes to touch upon important points on features of influential companies and their competitive advantages, focusing more on points from a viewpoint of corporate management strategies, apart from the specific matters on the retail business (types of stores, a line of goods or procurement, etc.). With regard to those specific points, he requests readers to refer to the rich researches and studies by many specialists prior to this paper.

First of all, Western companies are very conscious of growing and developing markets, increasing their size of operation and their presence by boosting the number of stores at a faster pace, especially. Typical examples are Carrefour and Wal-Mart in China markets. This strategy is effective in not only boosting a company's sales by raising its name recognition or brand awareness, but strengthening its position in the country's market by increasing its ability to procure local goods, from a viewpoint of absorbing profits resulting from growth of emerging markets.

Each Japanese company also pays attention to potential of the markets, accelerating the pace of opening stores lately. It also gives attention to opening stores in the second to third class large cities of the same countries. The author recognizes cases where TESCO, which entered a Chinese market later than other two Western companies, increased the number of stores sharply through its M&A activities from a viewpoint of "buying time," and the LOTTE group acquired a Macro network of stores in China and

Indonesia from SHV Holdings N.V., a large retailer in the Netherland.

Many countries have restrictions on foreign capital investment in their retail sector in the same manner as other many service sectors from a viewpoint of protecting their domestic companies. The author considers it important to respond to such restrictions flexibly and build a system in preparation for deregulation. Wal-Mart, Carrefour, and other companies are putting in place their system for entry into the Indian markets, which are expected to become huge retail markets, as a company in the wholesale sector temporarily, in which foreign capital investment is allowed at the moment, in the run-up to the lifting of such restrictions in the general retail sector.

Secondly, organizational learning to utilize past experience and know-how:

Each company learns and utilizes experience of failure in business or withdrawal from a market as well success in business in its past overseas business expansion. Typical examples are that Carrefour and FamilyMart utilize experience, know-how, and human resources they obtained in the Taiwanese market for mainland China. AEON makes use of experience and human resources it obtained in previous operations in other countries, for example in Malaysia, when it expands into the other ASEAN countries. Also Wal-Mart had many issues since the company's American style of standardized and centralized management and method of operating business did not fit Chinese markets and it was unfamiliar with local markets. However the author considers that the company is becoming successful as a result of gradually adjusting its corporate structure and business model according to the local business practices and consumers' preference.

Examples are selling food cooked inside Seven-Eleven convenience stores in China and offering the typical Japanese food of "ODEN" cooked in the way Chinese people like at convenience stores run by the Japanese convenience stores, based on their experience in Taiwan, from a viewpoint of adapting to the local preference. Responses to consumers' inclination to want better goods, delicious food, and new items of food (Japanese food, etc.) or changes in market environments including their increasing security-oriented and safety-oriented and health-conscious attitude are important factors, when it comes to progress in business through learning, while purchasing power of local customers is increasing because of economic growth of each country.

Thirdly, utilization of human resources:

Service or retail business is a person to person business activity and therefore human resources are more important. The author considers it necessary for a company to effectively team up employees on overseas assignment from its headquarters (expatriates) with local and the third country's human resources in order to combine "standardization" based on a size of its global or international operations as a company (group) with "adaptation" to needs and business practices of each market, and local preference of consumers there. A company needs competent personnel who are familiar with actual situations of the country where it expands, when it comes to negotiations on opening stores, procurement, or a line of goods which satisfy needs of local people and a sale of them. Making use of such personnel will allow the company to exchange and share information on best practice among offices.

AEON attempts to put in place an education system for training local human resources in China, providing introductory training for new employees or training for managers, store managers, and buyers on a job classification or occupation basis systematically. Also the president of the company's local subsidiary in Malaysia is Malaysian. Carrefour and FamilyMart utilize human resources who are from other countries, such as utilizing employees who were at their Taiwan offices for its business in mainland China, and making use of human resources through transfers of personnel among offices within the region of ASEAN by AEON.

Fourthly, internationalization at companies' headquarters' level :

This forms the major basis of promoting what the author mentioned above as three points and making a company's attempts effective, and it is considered an important matter for Japanese companies, especially. The existence of a principal or responsible people at a company's headquarters who are familiar with circumstances surrounding local subsidiaries allows the company to form and implement its appropriate strategy or policy which fits such circumstances. Also in order to develop abilities of capable local employees or human resources from other countries and allow them to show their abilities or to work for the company for a long period of time by providing them with motivation, its headquarters need to understand the purposes or build the system which satisfies their needs or gives them satisfaction (introduction of common personnel and training system on a worldwide basis or making English a common office language within an organization, like FAST RETAILING. In other words, in order to attract talented non-Japanese people and enable them to work for the company for a long



period of time and show their abilities, a company has to build a system in which its headquarters can understand their individual way of thinking or desire accurately.

The author would like to consider a competitive advantage leading to a company's success in Asian retail markets from a viewpoint of dynamic capabilities. The concept of "dynamic capabilities" was formed based on the recognition that it was difficult to explain a sustainable competitive advantage of companies competing with each other in the rapidly changing markets like those in Asia by using the strategy theories based on previous viewpoints which place value on the existing industry structure or relationship on a static basis.

Mr. Teece, Mr. Pisano, and Mr. Shuen, leading advocates of the theory, define dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." And some have a view that the organizational ability to operate a process of knowledge creation under dynamic environment is the dynamic capabilities.

The author here considers dynamic capabilities of companies he examined in this paper, which lead to their success in the Asian retail markets. In his view, the dynamic capabilities those companies as a whole have in common are awareness of business opportunities in new markets, an in-depth survey prior to market entry, acquisition of permission and licenses, preparation for, negotiations on, procedures for, and know-how about opening stores, operating and managing stores (including utilization of information by means of ICT), accumulation of ways of standardization, centralization, and adaptation to local markets, and methods of training human resources, as a result of organizational learning, although each company has its own characteristics and is different. He considers that the typical example is Wal-Mart in China, which obtains a higher position in the Chinese market by adapting its initial American style of standardized and centralized operations to actual situations of the country where it expanded.

### **Summary and conclusion**

As analyzed in the paper, although developing the Asian retail markets provide favorable business opportunities, competition there becomes intense among influential companies including the Asian countries (e.g. LOTTE Shopping of Korea which has aggressively increased the number of stores in China, Indonesia, etc. or RT-MART

INTERNATIONAL LTD. of Taiwan, the leading foreign affiliated company operating a retail chain in China and the fifth largest in China among all the retail companies there.

The author considers it important for Japanese retail companies to strengthen each company's dynamic capabilities based on above-mentioned four points, while they value their following competitive advantages, that is, their strength, in order to seize business opportunities leading to high growth:

- (1) Provision of goods and services of good quality in a careful manner including excellent ways of serving customers and a line of goods, and modern management methods using information obtained through advanced ICT, etc.
- (2) Management with emphasis on “treating employees with care and teamwork (utilization of the power as a team or group)”

At the same time, in his view, it is important to draw up strategies and implement measures by considering the total Asian market as a whole as well as the individual markets in the region.

(This is an informal and abridged English translation of the original Japanese “NLI Research Institute report” released in September, 2012.)