

DEPARTMENT STORE BUSINESS IN JAPAN

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I. *Japanese Department Stores Deserve Attention*

An American professor of marketing of high repute¹ reports that certain prototypes of department stores such as Fitz-Alwyne's assize stalls and Royal Exchange founded by Sir Thomas Gresham did begin their existence as early as 1189 and 1570 respectively. A well-known German authority on department stores² reports that Georges Vicomte d'Avenel, the author of "*Histoire Économique 1200—1800*," "*Richelieu et la Monarchie Absolue*" and other books, was giving evidence to the fact that a certain type of department store did exist in Paris already early in about 1725. But, such premature flowers did not bear fruits. They did not enjoy the perpetual succession which culminated in modernized department stores.

In Japan, we can find at least several stores that have continued to enjoy perpetual succession since their inauguration in the years between 1611 and 1726 down to the present day, and have developed into the advanced types of department stores as they are now.

The following are the names of those mentioned above and of some others of later origin:³

Table 1. Japanese Department Stores of Historical Importance

Name	Year of Inauguration	Year of Departmentization
Matsuzakaya	1611	1910
Shirokiya	1662	1908
Mitsukoshi	1673	1904
Daimaru	1726	1908

¹ P. H. Nystrom, *Economics of Retailing*, 1930, pp. 59, 61—2.

² J. Wernicke, *Das Waren- und Kaufhaus*, 1926, S. 1.

¹ & ² G. Fukami, "Definitions and History of Department Stores", *Department Store Management* (in Japanese) ed. by Shimizu and Tsuchiya, 1951.

³ S. Matsuda, *Department Stores* (in Japanese), 1939, p. 128.

Y. Hirai, "Positions of Department Stores in Present Day Economic Society", *Department Store Management* (in Japanese).

Depato Shimbunsha, *Department Stores Directory*, 1951.

Yamagataya	1752	1934
Temmaya	1819	1925
Fujisaki	1820	1932
Takashimaya	1831	1909

Incidentally, the names of department stores in Japan having presently more than 1,000 employees are as follows:

Table 2. Japanese Department Stores Having Employees More Than 1,000⁴

Daimaru (4195);	Daiwa (1053);	Hankyu (1842);	Isetan (1049);
Kintetsu (1501);	Matsuya (1100);	Matsuzakaya (4083);	
Mitsukoshi (3796);	Shirokiya (1080);	Takashimaya (3610);	
Toyoko (1600)			

Note: Figures in parenthesis are those of employees.

As regards Mitsukoshi, they adopted a *cash-sale system* in 1673, the very year of their inauguration. In connection with this cash-sale system, a story⁵ is still in the author's recollection that, in 1866, Charles Digby Harrod, the son of the founder of Harrods, London, being struck by the fact that West End shops were charging exorbitant prices mainly because they were forced by customers to give two or three years credit, seized the opportunity by advertising in "The Times," the "Daily Mail Gazette," and other papers to the effect that he was prepared to give better value for *cash* than could be obtained from any other shop in London. Incidentally, the year 1866 mentioned above is the very year of Harrods' extension into a department store.⁶

In 1683, Mitsukoshi adopted a *price-label system*, i. e. a system of marking goods in plain figures. They began to ask one price for one kind of goods. Shirokiya and others followed suit without delay. "*Marque en chiffres connus, et à prix fixe, de toutes les marchandises,*" one of the important mottoes of Aristide Boucicaut, the founder of Au Bon Marché, found its realization in Japan by the forerunners of department stores about 170 years before the foundation of Au Bon Marché.

Departmental organization was introduced by Mitsukoshi in 1904. To show the years of departmentization of some stores just for the sake of comparison, 1899 is the year for Whiteley, 1907 that for Selfridge and 1900 that for Hermann Tietz, Berlin.

In view of these facts relative to the history of Japanese department stores set forth above and of some peculiarities thereof to be dealt with later, the author believes that some selected information about present-day

⁴ Depato Shimbunsha, *op. cit.*

⁵ Given by Mr. M. Acton of Harrods.

⁶ Dr. Wernicke however maintains 1907 as the year of Harrods' departmentization.

⁷ F. Ambrière, *La Vie Secrète des Grands Magasins*, 1932, p. 21.

Japanese department stores would constitute an interesting subject to scholars as well as businessmen in the civilized countries of the world.

II. *The Ebb and Flow of Japanese Department Stores*

It may easily be imagined that the Japanese ancient régime, characterized by the feudal system and a seclusion policy, fettered the commercial activities of the pioneering entrepreneurs of Japanese department stores. In principle, without approval on the part of the authorities concerned, they could not carry out a progressive business policy, nor exhibit their marketing and merchandising skill.

The Meiji Restoration (1868) emancipated them to a great extent, but it was not until late at the middle part of the Meiji era, i. e. at about the beginning of this century, that a new start could be made to modernize department stores.⁸ The closing of World War I marked the beginning of their expansion.

The great earthquake which destroyed and devastated the eastern part of Japan including the Tokyo and Yokohama area in 1923 was the greatest disaster the district had ever met. The department stores in Tokyo were no exceptions from this disaster. But, such factors as city planning carried out immediately thereafter, the extension and improvement of traffic services in the capital, the construction of store buildings with adequate facilities, and the introduction of new and advanced management methods, paved the way for the great expansion that followed. Looking back, we might say that out of evil came good.

Terminal stores began to appear between 1931 and 1934, just to complete the department stores constellation amongst the urban system of marketing organization. However, cut-throat competition between department stores and independent retail stores was gradually assuming the character of a social problem at about this time. In the face of these difficulties, Japanese department stores established among themselves a so-called self-discipline agreement to restrain aggressive trade methods, such as conducting too frequent bargain sales, opening 'circuit' stores in rural towns, or establishing too many branches in distant localities. In line with this policy generally recognized and supported at that time, government formulated a Commercial Association Law and a Department Store Law, which served, to a certain extent, to regulate the department store business.

World War II, a bad dream as it were to all Japanese, annihilated

⁸ Table 1.

all they possessed. Net sales of department stores declined from 100 in 1938 to 55 in 1944, and to 29 in 1946.⁹ These figures are significant as showing a precipitous drop by about one half toward the end of the war, and by about two-thirds during the economic prostration which followed it. The indexes of the ratio of department store sales to national income show even worse figures. According to these, Japanese department store sales declined from 100 in 1938 to 31 in 1944, and to 21 in 1946.¹⁰ A more terrific decline is seen in the sales of textile goods. The indexes for these goods dropped from 100 in 1941 to 31 in 1944, and to 8 in 1946.¹¹ This was the actual picture of textile goods supplies right after the war in Japan which once boasted of occupying a leading position among the textile goods exporting countries of the world.

As an aside it may be observed that, Japanese experienced their most difficult days in 1946. They were really hobbling and tottering in the very daily livelihood, losing their way of living amidst scorched remains and gloomy shacks. Food shortage and inflation were imminent and drove the people to desperation.

To almost all Japanese, it was like a dream, a thing very hard to believe, that after seven years of difficult days they should find themselves not only alive but also on the way to recovery as seen by sales of department stores, which are nowadays understood to represent the purchasing power of the people at large.¹² The economic status of Japan has now already recovered at least to 56—75¹³ as against 100 prior to the war.

At this point, readers are requested to refer to Table 3 for detailed figures regarding the ebb and flow of Japanese department store business. The following will serve as a summary:

Table 4. The War and Japanese Department Store Business as shown by Indexes¹⁴

	1938	1941	1944	1945	1946	1948	1950	1951
Sales :								
All Commodities	100	104	55	30	29	36	58	69
Ratio to National Income	100	84	31	—	21	36	55	74
Textile Goods		100	31	20	8	15	48	56
Floor Space	100	100	56	43	44	60	68	75
Employees	100	93	33	28	31	43	50	57

⁹ Table 3. 5th column from the left.

¹⁰ Table 3. The column at the right extremity.

¹¹ Table 3. 5th column from the right.

¹² This is why the Department of Trade and Industry has recently begun to take up the business of compiling statistics covering the trade activities of department stores. See footnote to Table 3.

¹³ Table 3.

¹⁴ This is a summary of Table 3. For detailed information refer to the same.

Table 3. Ebb and Flow of Japanese Department Store Business, 1938—1951

Year	Department Store Sales		Retail Price Indexes by Bank of Japan (B)		A—B		(U. S. A.)		Textile Goods			Available Floor Space Indexes	Number of Employees Indexes	Ratio of Department Store Sales to National Income	Indexes of Ratio
	Millions of Yen	Indexes (A)	Indexes (B)	1938 = 100	1938 = 100	1938 = 100	Department Store Sales Indexes (C)	Wholesale Price Indexes (D)	C—D	Sales Indexes (E)	Price Indexes (F)	E—F			
1938	642	100.0	100.0	100.0	1.00	97	99	97	1.02	1941 = 100	100.0	1.00	100.0	3.32%	1938 = 100
1939	785	122.3	112.0	1.09	1.09	96	106	96	1.10				106.5	3.24	100.0
1940	870	135.5	130.0	1.04	1.04	97	114	97	1.07				102.2	3.16	97.6
1941	876	137.9	131.6	1.04	1.04	108	133	108	1.23	100.0	100.0	1.00	93.3	2.79	95.2
1942	770	118.6	135.5	0.87	0.87	122	150	122	1.22	85.4	105.5	0.83	75.3	2.09	84.0
1943	761	118.6	143.7	0.82	0.82	128	168	128	1.31	84.6	108.2	0.78	56.7	1.71	63.0
1944	573	89.2	160.9	0.55	0.55	130	187	130	1.43	34.3	110.0	0.31	33.6	1.04	51.5
1945	461	71.9	236.6	0.30	0.30	131	207	131	1.58	32.2	158.4	0.20	28.6	—	31.3
1946	2,760	426.5	1,452.3	0.29	0.29	151	264	151	1.74	72.0	953.4	0.08	31.4	0.72	—
1947	10,465	1,628.8	3,911.6	0.41	0.41	190	286	190	1.50	213.2	2,167.1	0.10	38.1	0.93	21.7
1948	27,188	4,231.2	11,473.5	0.36	0.36	206	302	206	1.40	1,054.1	7,158.9	0.15	43.5	1.22	28.0
1949	46,745	7,274.9	18,669.4	0.38	0.38					2,919.4	11,761.6	0.25	45.4	1.36	36.7
1950	68,743	10,698.3	318,331.9	0.58	0.58					6,450.5	13,305.4	0.48	50.3	1.80	41.0
1951	105,423	16,406.7	723,748.5	0.69	0.69					10,713.6	18,971.2	0.56	57.0	2.34	55.1
															70.4

Note: Figures dealing with Japanese department stores are based on tables in Nippon Department Stores Association *Annual Report, 1951*. The author is indebted to Prof. Yuza Yamada, Hitotsubashi University, Prof. Tsuchiya, Managing Director of Tokyo Department Stores Association, and Mr. Nagaoka, Chief Secretary of Nippon Department Stores Association for the compilation of this table. It should be noted that the figures set forth here are those of the members of NDSA. NDSA had in 1951 70 members with 1,680 million Yen capital stock, 193 stores, 950,580m² available floor space, and 40,276 employees. Other than this statistics, Department of Trade and Industry is now, from 1950, compiling statistics covering the trade activities of Japanese department stores having 50 or more employees. To show an instance of comparison, government report of sales in 1951 shows 107,296 million Yen as against 105,423 million Yen shown here. Figures dealing with American department stores are those adapted by the author from *Statistical Abstract of the United States, 1949*, pp. 302, 911.

* Since Apr. 25, 1949, ¥ 360= \$ 1.

III. *Marketing Through Japanese Department Stores*

There were in Japan, according to the interim census of business carried out in 1939, 1,930,385 retail establishments with total sales of 16,408,154, 242 Yen. The following will show the subdivisional 6 groups of retail types under the category mentioned here together with the sales thereof:

Table 5. Japanese Retail Establishments, 1939

Retail Types	Number of Enterprises	Sales, Millions of Yen
Independent Retail Stores	1,198,416	5,423
Department Stores	203	668
Producer-Retailers	362,541	823
Wholesaler-Retailers	186,906	8,124
Consumers' Cooperative Retail Stores and the like	35,849	1,182
Road-Side Traders, Peddlers and the like	146,470	184
Total	1,930,385	16,408

As per Table 5, sales of department stores totaled 668 million Yen,¹⁵ and made up 4% of all retail trade. As regards the *department stores' participation* in all retail sales, there are more recent estimates published by several authorities on the subject,¹⁶ registering 5.7% for 1950, and 15% in the case of 6 big cities and 5% in the case of other smaller cities.

Incidentally, as regards the business location of department stores in Japan, the author finds, from the above figures, that Prof. Clark's argument on American department stores does apply also to their Japanese sisters. It runs: In spite of the fact that they have done only a small proportion of the total retail volume of the country, they do an appreciable part of the retail business in the larger cities, and they have long been the standard against which other stores have measured their own retailing operations.¹⁷

And still further, Prof. Nystrom's conclusion, regarding the rôle department stores play in marketing field, to the effect that when a retail type of operation such as a department store is established among existing retail stores, its sales' participation percentage will eventually come to stay within a certain range of percentages such as 8—10% as in the case of

¹⁵ This should be considered as the figure of 1938 instead of 1939, and should be compared with 642 million Yen resulting from NDSA members' sales in Table 3, 2nd column from the left.

¹⁶ S. Matsuda, "Department Stores as a Type of Retail Operation", *Department Store Management* (in Japanese).

¹⁷ Clark and Clark, *Principles of Marketing*, 1947, pp. 318—9. With the permission of the MacMillan Company, N. Y.

American department stores,¹⁸ remains still fresh in the author's memory.

At this point it seems to be advisable to quote here a few figures concerning American department stores:¹⁹

Table 6. American Department Stores, 1939

	Stores	Sales, Millions of Dollars	Employees	Payroll, Millions of Dollars
All Retail Trade (A)	1,770,355	42,041	4,600,217	4,529
Department Stores of all types (B)	4,074	3,974	566,052	611
Independent D. S. Chain D. S. combined (C)	4,043	3,506		
Ratio of B to A		9.4%		
Ratio of C to A		8.3%		

In late years, customers at first-class department stores in Tokyo reportedly number 170,000 or more on a Saturday or Sunday at the end of the year. In December, the banner month for department stores, they customarily expect 2—3 million visitors to each store during the month.

The problem of *functional relations between population and Department stores* was already taken up by, among others, Prof. Doubman.²⁰ So, it would be redundant to add here more logic on the matter. The author has thought it enough for him just to put forth necessary figures²¹ to consider the problem.

Table 7. Population and Department Stores in Japan, 1951

Area	Purchase by Inhabitants per Capita	Available Floor Space for 100,000 Inhabitants
Tokyo	7,274 Yen	4,515 Square Meters
Osaka	12,638	11,743
Kyoto	5,624	6,805
Kobe	5,039	5,256
Nagoya	5,396	5,005
Yokohama	640	498
Average of 6 Cities	7,159	5,758
Other Smaller Cities	2,848	3,408
Grand Average	5,252	4,735

As regards the *merchandise lines* Japanese department stores are handling, Table 8 will show the composition and percentages thereof.²² They are of wide variety indeed, but are for the main textile goods. As in the

¹⁸ Prof. Nystrom's lecture at Columbia University, which the author attended 1932—3.

¹⁹ *Statistical Abstract of the United States*, 1949, pp. 900, 911—2.

²⁰ J. R. Doubman and J. R. Whitaker, *The Organization and Operation of Department Stores*, 1927, Chap. I.

²¹ NDSA *Annual Report*, 1951.

²² NDSA *Annual Report*, 1951.

case of American department stores, Japanese stores are prominent in the sale of dry goods.²³ In order to make the Table more useful, the author took the liberty to quote from the work of Mr. Foster, Miss Love and others,²⁴ who, the author hopes, will be generous enough to permit it.

Table 8. Japanese Department Store Sales by Merchandise Lines, 1951

Merchandise Lines	Sales Millions of Yen	Ratio to Total Sales	(U. S. A.) Merchandises	Ratio
Textile Goods	51,527	48.88	Piece Goods and Domestics	6.7
			Women's, Misses', and Juniors' Ready- to-Wear	19.5
			Ready-to-Wear Accessories	19.5
			Men's and Boys' Clothing and Furnishings	10.7
Small Wares, Toilet Goods, Notions and Novelties	20,703	19.64	Small Wares, Toilet Goods, Notions and Novelties	11.3
Home Furnishings	8,711	8.26	Home Furnishings	24.0
Regular Cost Departments	1,377	1.31	Regular Cost Departments	3.3
Miscellaneous	1,568	1.49	Miscellaneous	5.0
Provisions	13,357	12.67		
Refreshment Rooms	1,900	1.80		
Mail-Order Business, Canvassing and the Like	4,126	3.91		
Wholesaling	2,151	2.04		
Total	105,423	100.00		100.00

Of the Japanese consumer's budget, expenditure for provisions occupy 55%, while those for textile goods only 14%. It is therefore interesting to note that Japanese department stores are indeed handling textile goods for the most part, but they are not depriving consumers²⁵ of their money

²³ "In common practice however, the term (department store) is applied only to stores in which dry goods, apparel, and home furnishings are handled." P. H. Nystrom, *Economics of Retailing*, 1930, Vol. I, p. 125.

²⁴ Adapted from F. L. Foster, Jr., *Operating Result of Department and Specialty Stores in 1949* (Harvard University Bureau of Business Research Bulletin No. 132), p. 5.

²⁵ Y. Tsuchiya, "Department Store Accounting in a New Light of Public Relations", *Present Day Commercial Theory and Practice* (in Japanese), Vol. I, 1952, ed. by Japanese Academy of Commercial Sciences.

so much as could be superficially imagined.

IV. *Operating Results of Japanese Department Stores*

One or two of the first concerns of a store operator are the problems of gross margin and expenses. Net profit and net gain are indeed the ultimate aim of the store operator, but this is after all the result of gross margin and expenses. It would be too late to worry at the end of a fiscal term about operating result which were unexpected, appearing in the shape of profit and loss. The capable operator will always use the utmost discretion from the beginning of the term to balance gross margin with total expense so as to expect the right profit and gain at the end of the term.

Before going further into details concerning the problems of gross margin, expenses, etc., let us first try to obtain a *bird's-eye view of the whole field of operating results*. Figures in Table 9 show the actualities learned of a few existing Japanese department stores.²⁶ Note, however, that the names denoted by alphabets are unrelated with the initials of their real names.

Table 9. Operating Results of Some Japanese Department Stores. First Half Year, 1950

Store		Net Sales	Gross Margin	Total Expense	Net Profit	Depreciation and others	Net Gain
A	Millions of Yen	4,064	721	633	87	37	50
	Per Cent of Net Sales	100.0	17.8	15.6	2.2	0.9	1.2
B		4,681	801	697	104	51	52
		100.0	17.1	14.9	2.2	1.1	1.1
C		931	166	154	12	2	9
		100.0	17.8	16.5	1.3	0.3	1.0
D		368	61	49	12	6	6
		100.0	16.9	13.4	3.4	1.6	1.7

According to Table 9, the gross margin ranges from 16.9 to 17.8 per cent of sales, total expense from 13.4 to 16.5, net profit from 1.3 to 3.4, and net gain from 1.0 to 1.7. These are but a few instances, but they demonstrate the general aspect of operating results of Japanese department stores.

A *total merchandise cost* calculation may be made easily from the Table. By finding the complement of gross margin percentages 16.9—17.8, we obtain the cost figures 82.2—83.1%. These figures are, of course, an

²⁶ Tsuchiya, *Ibid.*

average. It is said,²⁷ in the case of fashion goods, fancy goods and the like, the stores will operate on a gross margin higher than the average, reducing the cost percentage as far as 75%. In the case of food and daily necessities, the gross margin will be lower than the average, increasing the cost percentage as far as 89%.

As regards *gross margin*, unlike American department stores, whose figures are 34.9—35.8% in the case of independent department stores, and 35.0—35.85% in the case of group department stores,²⁸ ²⁹ the figures for Japanese stores are generally supposed to be somewhere around 17%, far lower than the American figures. Table 9 too evidences this. The reasons for this striking difference will be made clear to a certain extent later in connection with expenses figures which show also a wide difference between the two countries.

As the gross margin is, as already pointed out, one of the first concerns of a store operator, the author thinks it to be of some value to have here a kind of comparative list of retail gross margins.

Table 10. Comparative List of Retail Gross Margins

Merchandise Lines	X Department Store ³⁰ 1951	Independent Small Business ³¹ 1951	Per Cent of Sales	
			(Germany) ³² 1937	(England) ³³ 1938
Foot-Gear (Japanese)	20.4	26.2		
Books	19.4	13.6	26.5—30.5	25.0
Occidental Dresses (Men's)	18.1	49.2	29.3—31.9	34.5
Haberdashery	20.7	18.5	32.3—35.8	31.5—34.0
Toilet Goods	23.6	16.4	27.9—29.7	24.0—29.0
Stationery	25.3	22.9	33.6—36.8	34.0
Watches		43.4	32.9—39.2	42.0
Shoes		23.6	25.4—26.9	26.0—28.0
Bicycles		30.6	27.9—32.7	36.0
Fruits		23.0	18.9—24.2	27.0

Total expense is, in a sense, a source of headache or rationalization policy. But, it is really, at the same time, a key with which one can open the door to profits. This is especially true in this advanced age of cut-throat competition. The following are actual figures obtained from certain

²⁷ Tsuchiya, *Ibid.*

²⁸ Foster, Jr., *op. cit.*, p. 25.

²⁹ The gross margin (Brutto-Aufschlag) of German department stores were 30.6—33.0% in 1937. *Ueberblick*, May 25, 1940, p. 127.

³⁰ Tsuchiya, *Ibid.*

³¹ Tsuchiya, *Ibid.* Institute for Taxpayers Business Management.

³² Adapted from *Ueberblick*, 8 Jahrgang, Heft 10, 25. Mai 1940, S. 127.

³³ Adapted from J. B. Jefferys, *The Distribution of Consumer Goods*, 1950; Chart IV.

Japanese department stores.³⁴

Table 11. Analysis of Total Expenses of Japanese Department Stores. First Half Year, 1950

Store	Items of Expenses	Amount Millions of Yen	Per Cent of Net Sales
A	Payroll	348	8.58
	Traveling Expenses	11	0.29
	Welfare and Education	24	0.61
	Meetings	4	0.11
	Advertising and Publicity	69	1.72
	Reception	17	0.42
	Packing Materials	30	0.75
	Repairs	42	1.04
	Communication	11	0.28
	Insurance	1	0.05
	Light and Fuels	15	0.39
	Other Unclassified	9	0.24
	Rentals	5	0.13
	Taxes	39	0.98
	Losses from Bad Debts	0.6	0.01
	Total Expense	633	15.60
B	Payroll	342	7.34
	General Manager Division	58	1.35
	Secretary Division	136	2.93
	Treasurer Division	85	1.82
	Advertising and Publicity	73	1.51
	Total Expense	697	14.85
C	Payroll	74	8.0
	Supplies	17	1.9
	Repairs	4	0.5
	Taxes and Rates	12	1.3
	Buying and Selling Expenses	32	3.4
	Other Unclassified	12	1.4
	Total Expense	154	16.5

According to Table 11, total expenses range in this case from 14.85 to 16.5% of net sales. As has been said in connection with the gross margin, these are but a few instances, but one may well judge conditions surrounding Japanese department store operating expenses.

In contrast with the Japanese figures, American total expenses amount to 32.2—34.0%³⁵ showing a striking difference between the two countries. The reasons for this, as well as for the difference in gross margin treated above, may be explained as follows:³⁶

1. The system and methods of calculations are different. In other words, Japanese stores exclude such items as depreciation and interest on

³⁴ Tsuchiya, *Ibid.*

³⁵ Foster, Jr., *Ibid.*

³⁶ Tsuchiya, *Ibid.* R. G. Walters and J. W. Wingate, *Fundamentals of Selling*, 1942, pp. 514—5. With the permission of South-Western Publishing Company.

invested capital from total expense, while American stores include these items, which in 1949 were 0.45—0.65 and 1.2—1.25% respectively.³⁷

2. Merchandising policies are different. In other words, in the selection of merchandise, American stores put more weight on style goods and the like, which necessarily require more frequent markdowns in the course of salesmanship activities, than is the case in Japanese stores. Or, American stores put more weight on high-grade merchandise, expensive to sell, low in turnover and small in sales volume, which necessitates a higher gross margin.

3. The degrees of industrialization in the two countries are different. In other words, the United States of America is more industrialized than Japan. This fundamental difference in the economic conditions between the two countries explains the following facts: In America, as compared with Japan, production is more advanced through the use of machinery, which reduces the cost remarkably. Mass production is more concentrated in a small area. These circumstances place an additional burden on distribution. The distribution side of the business has to find new markets for the increased output. As a logical consequence, the percentage of distribution cost becomes relatively larger than ever against production cost even though the actual cost of distribution in money remains the same. It is said that, in America, the ratio between production cost and distribution cost is on an average 41 : 59,³⁸ while in Japan it is generally understood to be on an average 60 : 40.

As per Table 11, *payroll* items are a considerable part of the total expenses :

A	8.58 : 15.60.....55%	B	7.34 : 14.85.....49%
C	8.0 : 16.548%		
(U. S. A.) Independent Department Stores with Sales of 20 — 50 million Dollars			
	18.45 : 35.8.....51% ³⁹		

It is said that the percentage was 40% before the war, but is reaching 60%. As a matter of fact, this constitutes a genuine source of headache on the part of the management. We shall come back to this problem later once again.

In the expense analysis of A department store in Table 11, the item of *advertising and publicity* comes second in the order of the amount spent. It is reported that the cost of advertisements inserted in newspapers by department stores in Tokyo during September, 1950 amounted to 16 million

³⁷ Foster, Jr., *op. cit.*, p. 25.

³⁸ Walters and Wingate, *op. cit.*, p. 510. These American professors go further to comment, most pertinently: "Hence in deciding whether the costs of distributing a certain article are too high, we must not consider merely the increase in the *percentage* of distribution cost. We must also consider the increased burden placed on distribution by increased production and by the concentration of production in a small area." p. 515.

³⁹ Foster, Jr., *Ibid.*

Yen, making up 6.7% of the advertisements carried by these papers. In the order of the amount spent on newspaper advertising, we have following merchandise lines or business lines:

1. Drugs, chemicals and medical instruments. 2. Theatres. 3. Books. 4. Department stores. 5.....⁴⁰

Net profits shown in Table 11 range from 1.3 to 3.4% as against the American figures, 1.5—3.65%.⁴¹ *Net gain* figures are 1.0—1.7% as compared with the American figures, 3.8—6.25% which are those before federal income taxes are paid.⁴²

V. Japanese Department Stores, Present and Future

In concluding the present report, some aspects characterizing Japanese department stores today and tomorrow warrant a few words:

1. *Polytype Stores* Japanese department stores are now being operated mostly under very able executives. Most of these are graduates of universities. Almost every leading department store has among its staff several executives once sent to U. S. A. and other countries to investigate or study the most advanced business types and methods, that had just come out there.

Nowadays, Japanese department stores operate not only the original genuine type of department stores for the most part, but also other types of stores. Some of these are on a department-store chain basis. Even the voluntary chain types or supermarket types are finding their domiciles under the roof of department stores. What is more, they resort to almost all kinds of sales methods, such as mail-order business, installment selling, canvassing, and sales on credit, to obtain an advantage.⁴³

In view of these facts, it may be said that Japanese department stores are, in a sense, really *polytype stores*, if the author be allowed to introduce a new word.

2. *Amusement centers* Questionnaires answered from 464 men and women in Tokyo once revealed that such factors as variety in goods (22.2%), reliability in salesmanship (18.6), reasonable and moderate prices (18.1), convenient location (11.6), ease in shopping (9.0), pleasant atmosphere (8.2) and good quality (8.0) were attracting customers to department stores.

Japanese department stores are attracting not only women but also men and children. The argument advanced by American professors,⁴⁴ "Men

⁴⁰ Matsuda, *Ibid.*

⁴¹ & ⁴² Foster, Jr., *Ibid.*

⁴³ Hirai, *Ibid.*

⁴⁴ P. D. Converse and H. W. Huegy, *The Elements of Marketing*, 1946. p. 345.

dislike crowded aisles and slow elevators and do not want to spend as much time as women do in shopping." certainly applies to Japanese stores, too, to a certain extent, but there can always be seen numbers of men and children jostling in these stores to the amazement of sightseers from abroad.

People commonly take to them as to public parks, permitting free access to all kinds of attractive accommodations, furnished by the exercise of elaborate capitalistic minds. A recent feature of Japanese department stores is to hold frequently various kinds of exhibitions, side-shows and other entertainments mostly free of admittance charges. Verily, Japanese department stores are, in a sense, amusement centers for the Japanese populace at large.

3. *High Turnover, a Panacea* Japanese department store executives are now much concerned in cutting down the percentage of *payrolls*, which amounted to 7.34—8.58 in 1950 as shown in Table 11. If this proves to be actually impossible, they will at least try to satisfy themselves with just stopping the increase in the percentage.

As shown in Table 3, the available floor space index recovered to 75 in 1951 as compared with 100 in 1938, while the employees index recovered only to 57. This unbalance between space and employees will be understood more clearly by stating that, while space per employee was 17m² in 1938, it was 23m² in 1951.

Japanese department store management is very reluctant to increase the number of employees, who make it a rule to demand higher wages through the threat of strike at least twice a year, June and December, the months when bonuses are distributed. This attitude on the part of the management will obstruct the expansion of available floor space, for the number of square meters per employee may become another source of labor disputes.

Under these circumstances, how will they find their way out? The only way is maximum employment of both space and employees, by enhancing the rate of stock turnover.

Incidentally, the payroll of Japanese department store employees is far greater than the average, to say nothing of government officials. But they are going to gain more ground, whilst securing the inch already acquired. Two recent labor disputes, at Mitsukoshi and Takashimaya, evidence this fact to the fullest extent.

Aristide Boucicaut, the founder of Au Bon Marché, increased the turnover rate from, then prevailing, 0.5 to 6.⁴⁵ The turnover of American department stores was 4.4 in 1949.⁴⁶ Now, Japanese department store leaders are exerting their utmost efforts to increase the turnover from the pre-war

⁴⁵ Ambrière, *op. cit.*, pp. 22—3.

⁴⁶ Foster, Jr., *op. cit.*, p. 6.

figure of 8.4 to 20 or 24.⁴⁷

4. *Merchandise Exchange Check (Gutschein), as good as Cash in and out of the Store* In 1951, Japanese department stores issued, or more pertinently sold, 2,377 million Yen of merchandise exchange check making up 2.26% of sales.⁴⁸

The check is a document by which a store promises to deliver any merchandise in hand in exchange therefor to an amount designated on the document. As it is only convertible into goods in the store, or its affiliated stores, issuing the same, the sale of the checks is equivalent to the sale of goods, the price of which is being paid in advance. In other words, the store holds the goods already sold under custody.

Japanese are rather fond of making presents. It is commonly understood to agree more with Japanese etiquette to make a present with a check rather than with unveiled cash. This seems to be the main reason for the popularity of this document among Japanese people.

At present, Japanese department stores welcome this usage, but on the other hand they complain a little of the high rate of local taxes, the maximum of which is fixed presently at 10%, and of the expenditure involved in manufacturing checks and in doing business that follows their sales. They also feel a kind of menace in the appearance of gift-checks issued by banks free of taxes for the same purposes. Some day in the near future, the management of stores will have to consider an adjustment between these two kinds of checks.

To add still a few words at the end of this report, among problems such as 1. the adoption of a merchandising plan which will stress trademarked merchandise, 2. department-store chains, 3. establishment of branch stores, notably suburban stores, 4. acquisition of stores in other cities, 5. basement stores, 6. leased department, mentioned by American professors⁴⁹ in connection with the present and future status of American department stores, 2, 3, 4, and 5 seem to have sufficient possibilities in Japan, in the future as well as at present, as to claim careful thought on the part of Japanese department store operators.

⁴⁷ Matsuda, *Ibid.*

⁴⁸ NSDA *Annual Report*, 1951.

⁴⁹ H. E. Agnew, H. A. Conner, and W. L. Doremus, *Outlines of Marketing*, 1950, pp. 105. 111—2.

Clark, *op. cit.*, pp. 329—30.