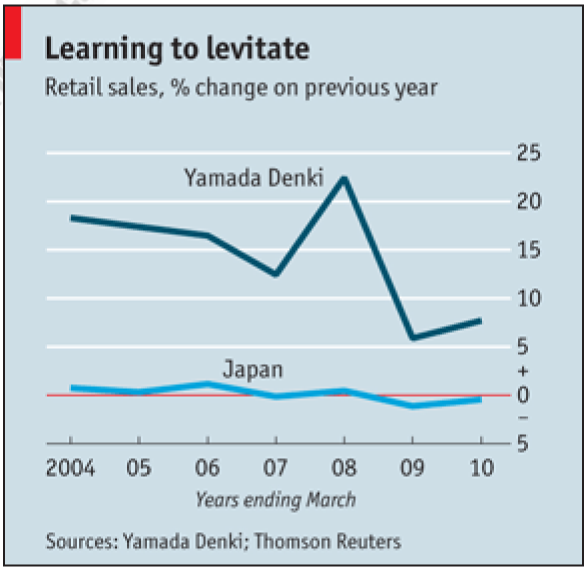
Shopaholics and shopaphobes

A retailer shows Japan how to beat the curse of thriftiness.

Whatever it is, we want one

THE Japanese used to be to conspicuous consumption what the Chinese are to raw materials. When there was a fad in Tokyo for tiramisu in the early 1990s, the world market for mascarpone felt the strain—until a Japanese company invented a synthetic version. But those bubbly days are long gone. Two decades of economic stagnation have produced a generation in their 20s and 30s that Richard May, director of the Japan Consumer Marketing Research Institute, calls kenshohi—people who hate shopping (except on the internet and from thrift stores). But one mainstream firm has defied the trend. It is Yamada Denki, Japan's largest consumer-electronics retailer.

Yamada Denki's consolidated sales in the fiscal year ended in March reached ¥2 trillion ($24 billion), double their level of five years ago. It has been growing quickly (see chart). Pre-tax profits doubled over the same period to a record ¥102 billion. The firm's market share is more than 25%, which makes it, as one analyst puts it, the Wal-Mart of home appliances in Japan. Some of its success last year was thanks to a temporary government stimulus programme, which gives people who buy low-energy appliances discounts on future purchases. Yet the firm's growth since it was founded in 1973 is largely self-made. Yamada Denki has rewritten the rules of retailing in Japan. It has done so with a loyal following of foreign investors who have helped it more than Japan's risk-averse banks. "We've always been evaluated better abroad than in Japan," says Tadao Ichimiya, its president.



Unlike other parts of the Japanese economy, the electronics-goods market has consolidated, largely thanks to a war of attrition waged by Yamada Denki. Over the past decade it has forced many small retailers out of business, many of them linked to the legendary electronics brands like Panasonic and Sony that used to set their own prices. Yamada Denki built market share by creating box-like stores in provincial areas, ordering lots of stock at a good price, then selling it to customers who were rewarded with generous loyalty cards. The electronics manufacturers were unable to resist this process: their individual brands are so powerful, there is rarely a thought of consolidation. Yamada Denki and its handful of smaller rival chains were able to divide and rule.

The company discusses its relationship with electronics suppliers delicately. Because of its size, “we can now suggest that they have a more open discussion with us,” an executive gently puts it. In fact, analysts say, it has persuaded the suppliers to provide much of the labour in its stores at branded booths, which holds down sales costs. It also collects goods directly from them. Its power also enables it to convince manufacturers to dedicate certain production lines exclusively to making stock for Yamada Denki on good terms. According to Dairo Murata of JPMorgan, about 30% of its products now come from these dedicated lines.

Yamada Denki has bolstered sales in recent years by building stores in big cities called LABI (the brand name, mysteriously, stands for Life Ability Supply). But its market share is reaching saturation point, especially given Japan’s shrinking population. So it is turning to China, where it hopes to open five stores in 2012 and to achieve yearly sales of ¥20 billion to ¥30 billion per store, Mr Ichimiya says.

His optimism will be tested. Yamada Denki mostly has experience selling Japanese products. The Chinese will want more variety. It will face competition not only from Chinese retail rivals, but also from online portals and American firms like Best Buy and Wal-Mart. Mr Ichimiya shrugs off the risks. “The only barrier between us and China is the language,” he says, rather naively. But that is why the company is busily hiring Chinese staff as future managers—yet another big break from Japan’s insular corporate tradition.

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