

論 説

Japanese 100-Yen Retail Chain in the Development of the Retail Industry

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Abstract

Retailers are dispersed all over the world, even in places going through the early stages of economic development. Japanese retailers have a long and mixed history, with a period of expansion in the 1980s followed by a long period of stagnation. 100-yen retail chains are a relatively new phenomenon in the Japanese retail sector, which had long been dominated by high-priced department stores, supermarket chains, and small retail stores. The main purpose of this study is to examine how 100-yen retail chain stores emerged and proliferated in Japan's stagnant economy and how they were able to adopt effective supply chains in the face of competition from other types of stores. There are many 100-yen retail shops in Japan, and they are different from each other in terms of product diversification, store layout, pricing strategy, branding strategy, and store operation strategy. After Japan's economic bubble burst in 1990s, the country suffered from economic stagnation with a gradual decline in individual income and consumption. Under the pressure from US businesses, Japan amended its retail law to facilitate an easier business process for foreign capital in Japan and to permit the retail stores to sell various items. These changes made it possible for 100-yen shops to emerge. Since the late 1990s, 100-yen stores have expanded and introduced low-cost outsourcing, bulk ordering, acute integrated point of sale system, uncluttered distribution, product distribution through regional distribution centers, and the launch of radio frequency identification e-paper in an inventory management system. However, fierce competition with other retail stores, such as drug stores and convenience stores, presented a challenge to 100-yen stores.

Key words: Supply chain, low cost products, 100-yen chain shop, stagnated Japanese economy, Large Scale Retail Store Law

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1. Introduction

Japanese retailers have a long and mixed history, nationally and internationally, with a period of expansion in the 1980s followed by a long period of decline and stagnation. 100-yen retail chain is a new phenomenon in the Japanese retail sector, which has long been dominated by high-priced department stores and supermarket chains until the 1990s. 100-yen shops are Japanese-style one-dollar shops, that sell a wide variety of items for 108-yen (8-yen is for tax), is growing rapidly under Japan's low-price retail blocks. The main concept of 100-yen shops is cheap, functional, utilitarian goods that meet the daily needs of consumers. 100-yen retail chains provide their customers with an experience that is enjoyable overall by selling high-quality products for their affordable price. This retail chain is constantly working together with designers to develop daily necessary products that capture the hearts of Japanese people and tourists as a souvenir shop. Shared Research (2018) mentioned that the annual sales of 100-yen shops have grown exponentially since the early 2000s compared to other retail formats. The sales amounted to 700 billion yen in 2017, going from essentially zero in the early 1990s to 500 billion yen by the early 2000s. This rapid growth revealed a niche market that accounted for approximately 1% of total retail sales. Shared Research (2018) and Can Do's (2006) annual report cited that 100-yen retail stores grew in the 1990s against a backdrop of deflation, yen appreciation, and low-cost Chinese labor. After the 1998 Asian currency crisis, the yen's depreciation forced Japan into an industry shakeout that resulted in a four-company oligopoly: Daiso taking first place, Seria in second, Can Do in third, and Watts in fourth place. As each of these companies opened more stores in the 2000s, the rate of growth leveled off as the market neared

saturation. Gradually, 100-yen retail chains began to lose their low-price appeal because of growing competition from other retailers. Under these circumstances, 100-yen chain shops expanded their product offerings, introduced products with price points falling outside the standard 100 yen, and moved to develop their businesses overseas. The objectives of this study are to investigate the following issues:

- (1) The background of the advent of the 100-yen retail stores,
- (2) The supply chain process of 100-yen retail stores, and
- (3) The strategies of 100-yen retail shops to stay competitive in Japan's stagnated economy.

The subsequent section examines the background that led to the emergence of the 100-yen chain shop. Section 3 includes relevant literature about the Japanese retail market, Japanese retail law, and the characteristics of the 100-yen retail chain and its supply chain network. Section 4 describes research methods of this study, including the scope and business strategy of 100-yen chain shops. Section 5 investigates the trends characterizing the Japanese retail shops under a stagnant economy, amendments to Japanese retail law, and the strategies of 100-yen chain shops to thrive despite fierce competition. The final section includes the conclusion and discusses issues that need to be further studied.

2. Advent of the 100-Yen Chain Shops

100-yen shops evolved in the 1930s from truck-based pop-up shops. Today's 100-yen shops started to sell stationary, key chains, and other bric-a-brac, with each item priced at 10 sen in the shops' early stages. However, the Japanese retail industry underwent a massive change after the 1990s when the retail law was revised, which resulted in the dramatic expansion of the retail sector in Japan and the emergence of low-cost shops like the 100-yen retail chain. Slowly, the idea took hold, and Daiso opened its first 100-yen shop in 1991. The company now runs roughly 4500 shops nationally and internationally. As seen in Table 2.1, Seria, Can Do, and Watts have 1506, 1100, and 920 outlets, respectively. Now, there are more than fifteen 100-yen chain store companies operating in Japan.

Table 2.1: A brief description of the top performers

Company Name	Established	Business Theme	Business Value	Number of Stores		No. of Employees (Full-Time)
				Int. Stores	Dom. Stores	
Daiso	1977	Find Surprise and Fun	Quality, Variety, and Uniqueness	1500 Directly Managed	3000 Directly managed	721
Seria	1985	Color the days	Cleanliness, Gratitude, Sharing	—	1506 (51 franchised)	407
Can Do	1993	Something new every day	Quality, Surprise, Enjoyment, Something New	—	1100	641
Watts	1995	Always be there	With Town, With Life, With You	—	920	482

Source: Websites of Daiso, Seria, Can Do, and Watts.

Daiso is the pioneer among 100-yen chain shops. Daiso sells about 70,000 products, 99% of which are manufactured in company-owned manufacturing plants. More than 500 products are developed every month. Daiso's core strengths as a company, and distinction from competitors, are based on three values: quality, variety, and uniqueness.¹⁾ Seria, on the other hand, uses the special theme "color the days" to attract women and places its focus on natural, stylish, and simple products. Seria's main strategy is to attract female customers with its chic and classy products. The third company, Can Do, is like Daiso; it sells a large variety of lifestyle products and has the unique slogan "something new every day."²⁾ Can Do produces its own brand of products called Do! STARS to target young customers. It is also the only 100-yen shop to feature a cute mascot character called *Hakken Wando*, which is a play off the Japanese word for discovery to hint at the deals and products consumers will discover in each store. The Watts 100-yen shops originally started off as two brands, *meets* and *silk*, which merged together to form the Watts brand. The focus of Watts is on stylish home accessories and tidy daily commodities such as kitchenware and stationery. As an extension of the business model,³⁾ Lawson created a new business line in 2010 named Lawson 100, which combines a supermarket, a consumer value store, and the 100-yen chain shop. According to Lawson 100's "the best mix," the 24/7 stores sell a variety of items at 100-yen each (though some items may cost more than 100 yen). Lawson 100 handles Yu-Pack (postal package service of Japan Post), allows customers to pay their utility bills, and offers loyalty card services unlike other 100-yen retail chain shops. However, an in-depth examination of the concepts and theories revolving around Japanese retailing, Japanese retail law, the economics of retailing, and retailers' supply chain networking are needed to understand more about the supply chain process and strategies of 100-yen retail chains to stay competitive in Japan's stagnated economy. The following section aims to explore the aforementioned issues to examine the expected outcomes of this study step by step.

3. Literature Review

3-1 Japanese Retailing and 100-Yen Chain Shops

Flath and Nairu (1996) stressed that Japan has far more retail stores per person than the United States or than most European countries. Grier (2001) mentioned that the policies aimed at retail industries have come to change. For instance, these policies began introducing the competition principle after the 1980s then focused on five important issues: privatizing national enterprises, relaxing trade regulations, restricting competition between large retailers and small retailers, strengthening competition policies, and coping with market failure. This initiative opened the door for foreign investors to participate in the Japanese economy and also motivated local entrepreneurs to concentrate on expanding their

businesses internationally. Lottanti (2010) noted some significant changes in the Japanese retail market after the revision of the Large Scale Retail Store Law (LSRL) in the 1990s, which caused an increase in the number of large retailers and a decline in the number of small retailers because the small retailers faced severe competition from large retailers and lost regulatory protection, an imposed restriction that is based on the size of retail stores.

Larke and Causton (2005), who treated Japan as a modern retail superpower, found significant polarization occurring between retailers that offer high-end, branded merchandise and those offering generic, low-price goods, with those in the middle squeezed out of existence. They also mentioned that the Japanese retail market has transformed from manufacturer dominance to retailer dominance after 1990. Consequently, Japanese retail chains were pushed to think about strategic outsourcing and their entire supply chains.

In addition, the development of a low-cost retail chain was the turning point of the Japanese retail sector in the 1990s. Takei et al. (2006) conducted research on the retail market of Japan and found five important turning points in Japanese retailing. The first turning point in the 1900s involved the development of department stores and a rise in the incomes of persons living in urban areas. The second turning point in the 1950s comprised the growth of general merchandise stores (GMSs). At this time, the number of salaried workers and nuclear families, as well as the household incomes of salaried workers, grew. The third turning point in the 1970s promoted shopping centers and convenience stores, against the backdrop of excessive competition among GMSs, decline of small stores, and price-fixing by stores affiliated with electrical manufacturers. The fourth turning point in the 1990s included building complexes, large-scale suburban shopping centers, and rising supermarkets. However, the appeal of shopping centers in rural areas was declining. There was rampant deflation, and the bubble economy was collapsing. The fifth turning point in the 2010s comprised neighborhood shopping centers and online shopping while excess stores and competition between different retailer types appeared and the polarization of incomes and mosaic pattern of consumption expenditure were visible. 100-yen chain stores are the only low-price retailers to struggle with GMSs and supermarkets since their birth. Takei et al. (2006) also identified the low-price blocks in Japanese retailing that were considered to be unaccepted by consumers in Japan in the past unlike in the United States. However, in recent years, new retail formats such as drugstores, 100-yen shops and volume clothing retailers have grown rapidly and have been popularized as low-price blocks to Japanese consumers. Larke and Causton (2005) found Daiso to be the key player in low-price retail block which is still expanding rapidly, and the popularity of its low-price stores makes finding new tenants and franchisees very easy indeed. Meyer-Ohle (2003) cited that after relaxation of the LSRL in the 1990s, 100-yen shops transfigured to the floor-shop from track-based street shops, and they also started to expand the scope of business in 1995 to 2000 in the biggest cities, such as Tokyo and Osaka.

3-2 Characteristics of Retailing and Supply Chain Networking

Some key strategic issues of retailing can be identified after exploring relevant literature on the economics of retailing by Nystrom (1978), Murry and Schneider (2016), and Carden and Courtemanche (2016). The strategic drivers of retail industry are customer, product, logistics and distribution, business operation, sourcing materials, and location. Also, Johansen and Nilssen (2016) identified some specific requirements for the successful operation of a retail business and the competition centers around all of them. Some of them stressed accessibility to the target consumer, maintaining quality products, selecting convenient locations, managing logistics and inventory, the research and innovation of products, and sales promotion.

Consumer

According to Nystrom (1978), the function of the retail store is to provide its customers with the goods they want — when, where, and how they want them. Conroy et. al. (2012) cited that core dollar store consumers, broadly speaking, have lower incomes and self-report lower economic statuses than non-dollar store shoppers do. On the other hand, the Izumiya Research Institute (2007)⁴⁾ stressed that Japanese consumers are known to be fastidious shoppers who pay close attention to product quality, product selection, and the best-selling products. They are also known for their continued loyalty to the brands they have embraced. Larke and Causton (2005) asserted that a 100-yen retail chain is phenomenally popular with school students and that even adults are happy to buy there, as even if a purchased item breaks immediately, the loss is so small that nobody cares. Takei et. al. (2006) identified that 100-yen shops are not very preferable to consumers for foodstuffs and daily necessities, whereas convenient stores and departmental stores are highly preferable to consumers for these two categories of needs.

Wide and Distinct Product Line

Meyer-Ohle (2003) mentioned that Daiso wants to provide its customers with an experience that is entirely enjoyable at the fixed price of only 100 yen. In this quest, the company has come up with an electric toothbrush and hand massage sticks and has also widened its selection of watches to 180 articles. The company regards this philosophy as a key to long-term success with the ongoing change of consumer behavior. Shared Research (2018) pointed out that the company is focusing on product development and aims to expand its customer base as part of its product strategy. Specifically, it plans to add products targeting teenaged women. The company also aims to strengthen its product portfolio management by setting data-based standards for making changes to its product lineup. Yamamoto and Whang (2018) illustrated Daiso's product development process. They found that product ideas might come from customers, employees, or suppliers. Customers typically suggested 100 or more new ideas or improvements on a daily basis on Daiso's website, effectively letting Daiso crowd-source new product ideas. Daiso also reviewed each category

and rebalanced the product line. A new product idea would then be pushed further and developed into a prototype. The merchandise committee members—the merchandisers, buyers, and product specialists—would get together in each category to review the cost and benefit of each new product and determine what to add and what to drop. Once the product was approved, the product team selected the supplier. Kuchikumi (2015)⁵⁾ cited that a wide selection of products, affordable items, quality low-cost products, sourcing products from low-cost manufacturers around the world, and a bulk order of products at one time are the competitive advantages of 100-yen chain shops. 100-yen chain shops are competing to offer the most affordable quality products that can meet daily and seasonal demands.

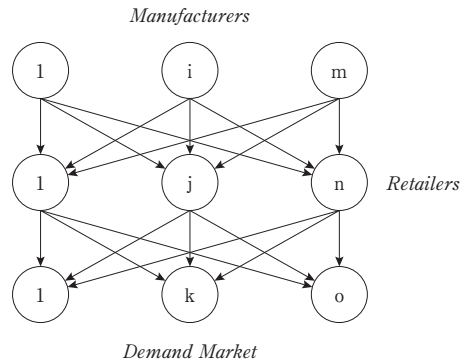
Quality of Product

Flath (1990) identified that Japan's high density of retail stores sell nondurable goods because Japanese dwellings tend to be small and confined, which makes household storage space limited and costly. Takei et. al. (2006) found that unlike supermarkets and drug-stores, the consumer ratings of 100-yen shops and convenience stores mostly differ by index item. Although 100-yen shops are rated high for low prices (+1.4) and enjoyable experiences (+0.9), they are rated low for quality (-2.2) and level of service (-1.5). Kuchikumi (2015) pointed out that the concept is not unique to Japan, although dollar shops are highly popular in North America. However, Japanese product lines make 100-yen shops unique both nationally and internationally. The Japanese believe in "new and clean," and they are comfortable with throwing things out after using them. Larke and Causton (2005) mentioned that 100-yen shops are small formats and sell large ranges of products but usually at an even lower quality. However, other formats are used to sell comparatively quality products.

Logistics and distribution

Managing logistics and selecting appropriate distribution channels are the prime factors for retail success. A wide range of previous studies focused on logistics and distribution networking. Dong et. al. (2004) developed a supply chain network model with manufacturers, retailers, and consumers. They considered m manufacturers, who are involved in the production of a product, which can then be purchased by n retailers, who, in turn, make the product available to consumers located at o demand markets. They denoted a typical manufacturer by I a typical retailer by j , and a typical demand market by k . They depicted the following supply chain network:

Figure 3.1: The network structure of supply chain between suppliers and manufacturers.



Source: Based on Dong J., Zhang D., and Nagurney A. (2004).

Another research study (Quak and Koster, 2009) focused on urban distribution centers (UDCs) and they found that the UDC is a promising concept. In this concept, the loads of delivery trucks from different carriers are consolidated at a single facility and transferred to new trucks to increase the load factor and to allow for easier time-windowed operations so as to avoid traffic congestion. It is shown from exploring the websites that 100-yen chain shops maintain multi-channel distribution systems and that the top performers have regional distribution centers (RDCs). The RDCs brought economies of scale for these small retailers after the 1990s. Yamamoto and Whang (2018) found that the back-end processing system consisted of four processes: point-of-sale (POS) system use, demand forecasting, inventory management, and distribution logistics. The entire system was developed over a long period, but it was significantly upgraded in 2012. Daiso invested 50 billion yen (approximately \$425 million) to establish its eight Japanese RDCs and to renovate the POS technology at all stores in 2014. Daiso continuously reduced its inventory with the POS introduction.⁶⁾ The company also introduced radio frequency identification (RFID) e-paper technology to speed up the logistics, and this has integrated three main tasks efficiently: inventory management, manufacturing, and logistics operations.

Strategic Outsourcing

This is another important variable for attaining economies of scale in an organization. Abrahamsson et. al. (2003) summarized three types of logistics operations models—decentralized logistics affiliated with top production and marketing, centralized logistics, and direct distribution and logistics platforms—as a resource base for market development. According to Barthelemy (2003), outsourcing is a way for firms to cut costs, improve performance, and focus their limited resources on their core businesses. Larke and Causton (2005) cited that 100-yen chain shops concentrated on China for offshoring manufacturing to attain a low-cost strategy over the retail market. Yamamoto and Whang (2018) mentioned that introducing a highly integrated POS system, demand forecasting, inventory

management, and distribution logistics allowed Daiso to automate the whole procurement process. Establishing eight entirely automated Japanese RDCs and the biggest plastic factory in Thailand, as well as the recent commencement of RFID e-paper technology also contributed to this. For example, the Hiroshima RDC was a 49,587-square-meter center (533,750 square feet) that distributed products to 400 Daiso stores near Hiroshima.⁷⁾ Shared Research (2018) mentioned that Seria has a strong collaboration with some reputed suppliers to meet consumers' needs. Seria has 180 dedicated suppliers. Key suppliers include LEC (Life; Enjoyment & Convenience), Inc., Echo Kinzoku Co., Ltd. (unlisted; sells supplies, household sundries, and do-it-yourself items to 100-yen stores), Sun Note Co., Ltd. (unlisted; sells paper products, files, and writing instruments to 100-yen stores), and Kyowa Shiko Co., Ltd. (unlisted; makes and sells paper goods).

Business Operation

Business operation information was found from exploring companies' websites — specifically, top performers among 100-yen chain shops, such as Daiso, Seria, Can Do, Watts, and Lawson. These companies mainly follow two approaches to managing a number of shops across the country and also follow the same strategy for controlling overseas operations. The two main approaches are company-owned shops and franchising shops. The ownership of shops, cash maintenance, guaranteed fees under a minimum amount in sales, shop maintenance, the product supply chain, product assortment, staff management, a strategic plan, and financial management are the top considerations for both company-owned and franchising shops. The managers of 100-yen chain shops are solely responsible for everything pertaining to company-owned shops. On the other hand, the key functions of a shop, for example — shop maintenance, managing a supply chain of products, product displays in the shop, staff management, an annual strategic plan, and financial control — are performed by the corporate management in franchising shops. Franchisees are responsible only for cash maintenance and guaranteeing a minimum amount in sales per month.

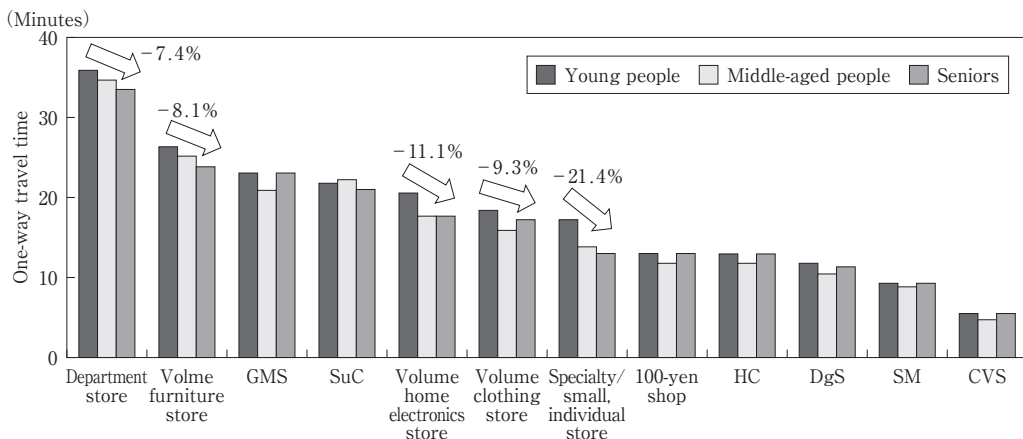
Yamamoto and Whang (2018) identified that Daiso began to develop a new retail model that was less of a treasury hunt model and more of a selected specialty product portfolio to meet customers' latest needs. Examples include Daiso Biz stores, which launched in July 2010 and targeted business districts with selected products. Another example is the Daiso and Aoyama 100-Yen Plaza franchised stores, which launched in June 1999 and used the store spaces of Aoyama Trading Co., Ltd., a fashion retailer in Japan. They also mentioned that Daiso started to expand to markets outside of Japan in 2001. At the beginning, international Daiso stores sold products procured locally, but over time, they migrated to Daiso products to manage the quality and the brand. In terms of this overseas operation, Japanese and non-Japanese stores sold somewhat different products in accordance with the demographic differences of the host countries. Meyer-Ohle (2003) also mentioned that small retailers in Japan, such as 100-yen retail chains, primarily create strong bases in domestic

countries to extend their operations overseas.

Location

This is most fundamental to the success of a brick-and-mortar retail business. The use of location intelligence to drive decision-making can be the difference between retail success and failure (Pescini, 2014)⁸⁾. Flath (2003) concluded that Japan's relatively high density of retail stores is due to its paucity of private cars, confined household living space, geographic centrality, and super-abundance of trucks. Takei et. al. (2006) mentioned that due to the development of the railway network, it became much easier for people living in rural areas to travel into the cities to shop, and this was the first turning point for the expansion of the retail industry in Japan. Also, rapid infrastructural development after the Meiji period encouraged Japanese retailers to find easy-access locations for people. Meyer-Ohle (2003) identified that large food supermarkets and general discount store operators built stores in locations that were no longer within walking distance of a railway station. Seiyu closed its old branch with its insufficient sales floor and parking near the station, and instead, it opened a new store in a location with good access for car traffic but two kilometers away from the nearest station. Takei et al. (2006) mentioned that compared with younger markets, the senior market showed a relatively low usage frequency in the following four formats: drugstores, GMSs, 100-yen stores, and convenience stores. They also showed a comparison of the time to travel from one's home to a store between seniors and young people, which indicated that seniors need less time than young people do to travel to purchase relatively high-priced goods.

Figure 3.2: Average time spent traveling to stores by retail format and by consumer age bracket



Source : Based on Takei H., Kudo K., Miyata T., and Ito Y. (2006)

Based on the previous literature, this study featured the following research questions.

- (1) How have 100-yen shops been expanding ?
- (2) How has this type of shop been managing a well-equipped supply chain ?
- (3) How has this type of shop been surviving in the stagnated economy of Japan ?

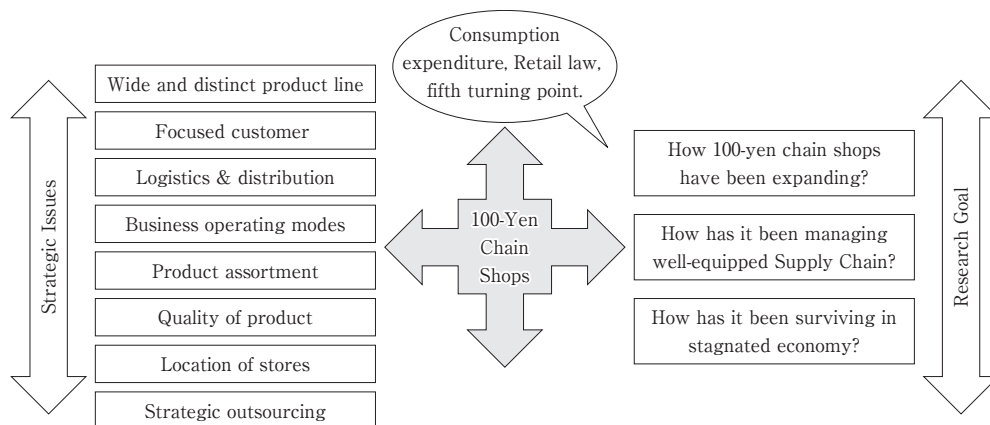
4. Research Methods

4-1 Scope

This study used empirical and descriptive data that were collected and analyzed for the sole purpose of examining the aforesaid research questions and exploring the expected outcomes. Relevant data were collected from the current statistics of the Cabinet Office of Japan, the Ministry of Internal Affairs and Communication (MIAC), the Ministry of Economy, Trade and Industry (METI), and the annual and quarterly reports of 100-yen retail companies. In answering the research questions of “How have 100-yen shops been expanding, how has this type of shop been managing a well-equipped supply chain, and how has this type of shop been surviving in the stagnated economy of Japan,” the present study proceeded from the evidence that the performance of 100-yen shops fluctuated over past periods due to unstable household incomes, changes in real consumption, new trends in retail law, and new turning points in retail formats.

100-yen retail chains have been struggling with these ever-changing external forces since their birth. This emerging new format always tries to foster its strategy and business model to keep pace with the competition. Wide and distinct product lines, a customer focus, logistics and distribution, business operations, product assortment, product quality, store locations, and strategic outsourcing are the key strategic concerns of 100-yen shops to remain competitive and manage supply chains efficiently.

Figure 4.1: Research Framework



Source: Based on Literature Review (Sections 3.1 and 3.2)

Extensive literature was reviewed to examine the key strategic issues of retail businesses, which play a significant role in the survival of low-cost retail chains, such as 100-yen retail chain shops in the stagnated economy of Japan and in the efficient management of

retail supply chain networks. In accordance with Nystrom (1978), these strategic issues are considered to be the economics of retailing. In addition, data on household income, household expenditure, and the gross domestic product (GDP) of Japan were used as evidence of the stagnated economy of Japan. Data on Japanese diversified retailing were also used to depict the trend of retail development in Japan. They also show how Japanese retailing changed over the period with the changing patterns of the Japanese economy. To achieve the research objective, the study used empirical data on the top performers of 100-yen retail stores in Japan from 1999 to 2018 from their annual reports. Sales per employee, sales per shop, profit per sales, profit per assets, growth of sales, and growth of profits were considered to examine the span of development of 100-yen shops. This information also provided a comparative picture of the top performers. The distinct business strategies of 100-yen retail chains are also considered to justify the research questions.

4-2 Distinctive Business Strategy of 100-Yen Chain Shops

(1) Product line and product diversification strategy

The competitive advantages of 100-yen chain shops consist of the following: a wide selection of products, affordable items, high-quality low-cost products, the ability to source products from low-cost manufacturers worldwide, and to order products in bulk order. As 100-yen chain shops compete to offer the most affordable quality products that can meet the daily and seasonal demands, they are also working to uphold Japanese traditions.

Table 4.1: Distinctive product lines of 100-yen chain shops

Company Name	No. of Products	Types of Products	Product strength	Specialty of the product
Daiso	70,000	kitchen goods, cleaning goods, stationery, storage, food and drink (even wine), cosmetics, toys, gardening, clothing, pet-related goods etc.	Original items, seasonal and party goods. It is almost like the general, DIY, and grocery store, all in one.	Daiso develops and produces their own products, including their unique and creative kitchen tools lineup.
Seria	20,000	interior products, kitchen goods, gardening and DIY (do-it-yourself) products.	Interior, Organizers Spacious stores	Focused on female consumer audience, with their chic and classy designed products.
CanDo	20,000	toys, gardening, clothing, interior products, kitchen goods, stationery, storage goods	Food and Drinks Franchising	It focuses on a large variety of lifestyle products.
Watts	18,000	stationery, storage, food and drink, cosmetics, toys, gardening, kitchen	Two different brands "meets.", and "silk", which merged together to form the Watts brand.	Watts targets stylish home accessories and also stylish daily commodities.

Source: Websites of Daiso, Seria, Can Do, Watts.

(2) Specialization of product line

Seasonal Products

Certain seasonal activities are ritualized in the Japanese mindset. Seasonal products specifically include the following: chocolate-making containers and gift wrap for Valentine's Day, wreath and candle decorations for Christmas, and cherry blossom-themed items for the spring. For Valentine's Day and White Day (the holidays where men who received chocolates return gifts in appreciation), stores display themed wrapping paper, ribbons, stickers, and small bags.

Storage Products

Storage bins and organizers are also popular products at 100-yen stores, because the average Japanese living space is small. This is why 100-yen stores have made it easy to strategize interior storage options in a stylish way. The 100-yen stores offer consumers fashionable draping, multi-colored containers, hanging baskets, racks, and many types of closet and drawer dividers. It is not uncommon for Japanese to measure the odd space in their apartment to make use of unused and awkward spaces, in which they fit small containers, straw baskets filled with supplies, or even a movable mini closet.

DIY (Do-It-Yourself) Products

DIY products are often another distinctive brand of 100-yen shops. It is common for Japanese rental houses to strict rules regarding the use of nails, painting the walls, and modifying apartment interiors. To resolve their problems, Japanese once again flock to the 100-yen store for double-sided tape, strong wires that facilitate construction of 100-yen furniture racks, contact paper to adorn walls or cabinets, carpets, and tension rods to create organizational space. Suspension cords, adapters, and electrical cable organizers and connectors can also be purchased at 100-yen stores.

Wide Selection

Many 100-yen stores are essentially one-stop-shops, as they offer a wide variety of products, from snacks to kitchenware, basic clothing, office supplies, and even toys. Some 100-yen shops are so big that they can fully occupy a six-floor building. Some 100-yen shops sell 300-yen or 500-yen products which makes this retail format more vivid in big cities.

Affordable Items

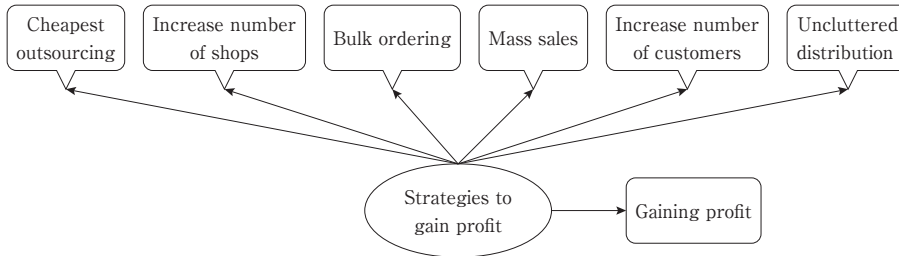
Most 100-yen shops sell virtually all items for 100 yen, plus the additional 8 yen of consumption tax. That amount is relatively small, compared to purchases from department stores, supermarkets, or convenient stores. Cheaper and more expensive items at the 100-yen shops balance each other out, and it is, ultimately, very profitable over a given period.

(3) Strategies of 100-yen shops to add value in the supply chain

Another competitive strategy of 100-yen chain shops is their uninterrupted supply chain management, which ensures uncluttered product distribution, from production location to shops through the warehouses of the company. These low-cost chain shops always out-

source products from the cheapest production locations in the world and ensure bulk orders to minimize the total cost. Selling mass products through an increasing number of shops is another strategy of 100-yen chain shops. This strategy helps to make these shops competitively profit-oriented in Japan’s retail sector.

Figure 4.2: Some basic strategies of 100-yen shops to add value in supply chain

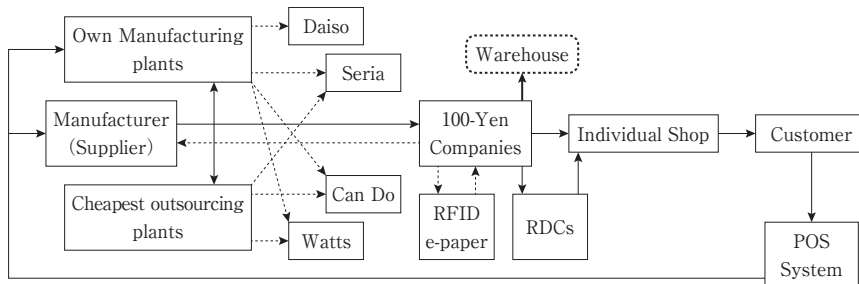


Source: Website of Daiso, Can Do, Seria, Watts.

(4) Product supply chain and logistics management system

For the most part, 100-yen companies maintain supplier relationship with two wings: one is sourcing materials from company-owned manufacturing plant, as Daiso does; another one is sourcing products from cheapest outsourcing plants. Seria, Can Do and Watts, Daiso’s major competitors, rely on both strategy to maintain the supply chain and company inventory. To manage a shorter distribution channel for inventory management, these 100-yen shops maintain a direct relationship with manufacturer. Every chain shop has a data management system (POS) that keeps a record of sales data, and this is a shared data management system, between 100-yen chain shops and suppliers. Using this data management system, suppliers and 100-yen shops effectively and efficiently maintain an uninterrupted supply chain of products.

Figure 4.3: Product supply chain and logistics management system



Source: Website of Seria and Can Do.

(5) Capital Management of 100-Yen Retail Chains

There is a dearth of information regarding the financial aspects of 100-yen retail chains. However, some of the issues related to capital management can be identified in the annual reports of Seria, CanDo, and Watts. Cash and cash equivalents are a large component of the current assets of these companies, followed by inventories. Companies retain cash in

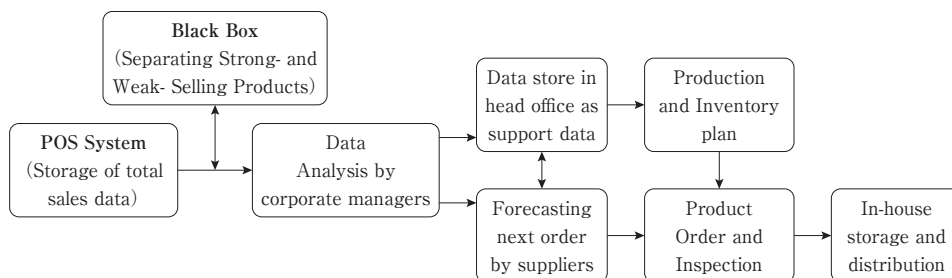
reserve for store openings to take advantage of opportunities that may arise, due to rapid changes in the operating environment. Seria mainly uses cash and cash equivalents to pay for replacement funds and invest in store openings, with each store requiring around 40 million yen. Fixed assets are made up of tangible fixed assets, investments, and other assets. Tangible fixed assets comprise buildings and lease assets. Investments and other assets are mainly deposits and key money, and include store furnishings and fixtures, as well as guarantees. Fixed assets are on an upward trend due to the increase in the number of stores.

However, liabilities center on current liabilities of 100-yen retail chains. Major current liabilities are accounts payable and accrued expenses. Shared Research (2018) mentioned that Seria has been paying down interest-bearing debt since 2011. From the end of 2018, there was no interest-bearing debt. Net debt was negative 36.0 billion yen, with cash and cash equivalents far exceeding interest-bearing debt.

(6) Information Sharing and Data Management

Figure 6 (below) shows that each 100-yen shop records every transaction, using a POS system. A specialized POS, called the *Black Box System*, helps 100-yen shops to identify best-selling products and weak—performing products. Instead of a point card system or any other means, 100-yen shops rely on the *Black Box System* to identify strong and weak products on their shelves. The data of the POS is automatically synchronized with the corporate information system at headquarters. Finally, the information sharing system analyzes the accumulated data and produce mathematically filtered data. Consequently, the POS shares all precise data with their designated suppliers, and this function as support data for both corporate management and manufacturers to formulate production and inventory plans (Rahman, 2018). The following figure shows how does POS data works, between individual shops, company headquarters, and suppliers.

Figure 4.4: Information sharing and managing supply chain



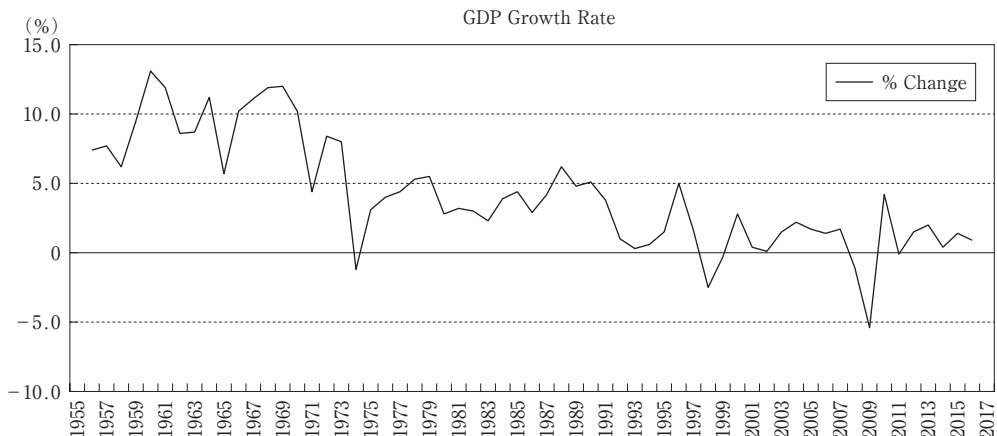
Source: Based on the Annual Reports of Seria, Can Do, and Watts, 2013

5. Japanese 100-Yen Chain Shops in the Development of Retail Industry

5-1 Stagnated Economy of Japan and Emergence of 100-Yen Shops

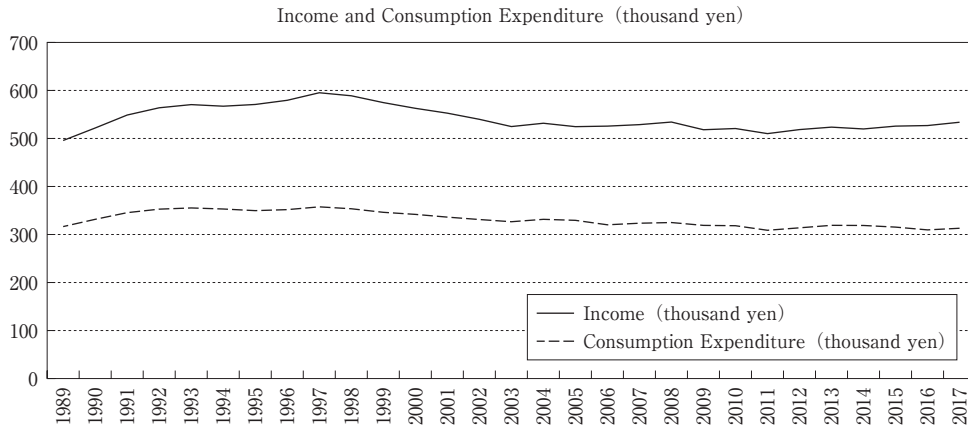
The GDP growth rate is one of the most important indicator of the economic health of a country. Figure 5.1 shows that Japan experienced a high-growth period for approximately 20 years from the mid-1950s to the early 1970s. The real GDP growth rate frequently exceeded 10 percent during this period and the highest growth rate was recorded as 13.1 percent in 1960. Figure 5.1 delineates the general development of Japan's postwar growth rate. The Japanese economy shifted into a period of stable growth in the early 1970s of around 5 percent. However, the bubble crash in the early 1990s started to cause lower growth rates. In 1998, there was a sharp fall of the growth rate, which is recorded as approximately -2.5 percent. The real GDP growth rate declined dramatically again in 2009, to -5 percent, and it has continued to decline, and it ranges from 1 to 3 percent currently.

Figure 5.1: Growth Rate of GDP of Japan



Source: Economic and Social Research Institute, Cabinet Office, Government of Japan.

The key driver of GDP growth is personal consumption. Personal consumption expenditure is a measure of national consumer spending that explains how much money people spend on goods and services. Figure 5.2 depicts average monthly income and consumption expenditure of Japanese consumers from 1989 to 2017. It shows that Japanese consumers experienced higher monthly income from 1989 to the mid-1990s, peaking at about 600 (thousand) yen in 1997. After that, the average monthly income started to decrease and, to date, it has remained almost flat. In addition, Figure 5.2 delineates the consumption trend of Japanese consumers, indicating that consumption expenditure of Japanese consumers gradually increased from 1989 to 1997 and has continued to decline until now, along with the stagnated income level of Japanese consumers.

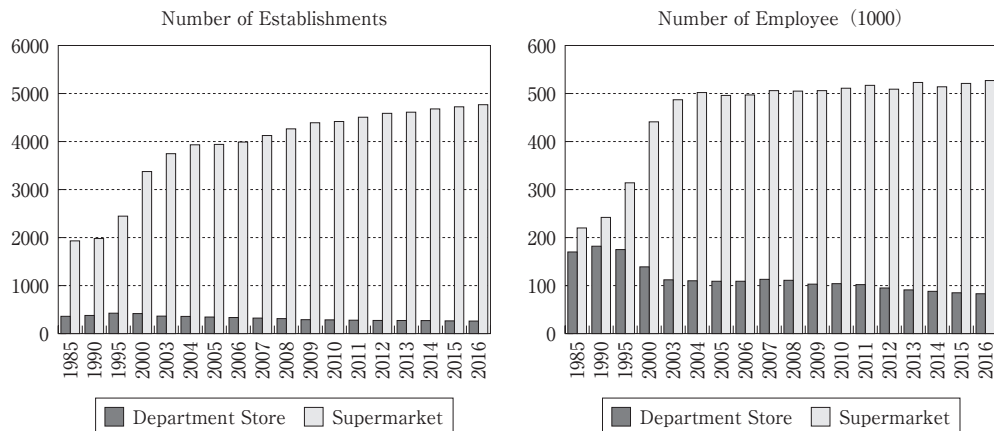
Figure 5.2: Income and Consumption Expenditure of Japan (Monthly Average)

Source: Ministry of Internal Affairs and Communications

Previous studies such as those conducted by Horioka (2006, 2004) found a positive relationship between the stagnated economy and lower consumption. They mentioned that the economic crisis after Japan's bubble economy led to a dramatic decline of consumption in Japan. Heng (2009) and Tsutsui and Mazzotta (2015) found that the major reason for such a dramatic change in consumption was the declining growth rate, from 6.2% to 0.3%, a drop of 5.9% between 1988 and 1993. In addition, Japanese people started to restrict on the level of consumption because of the declining trend of income from the mid-1990s.

5 - 2 Diversified Japanese Retailing

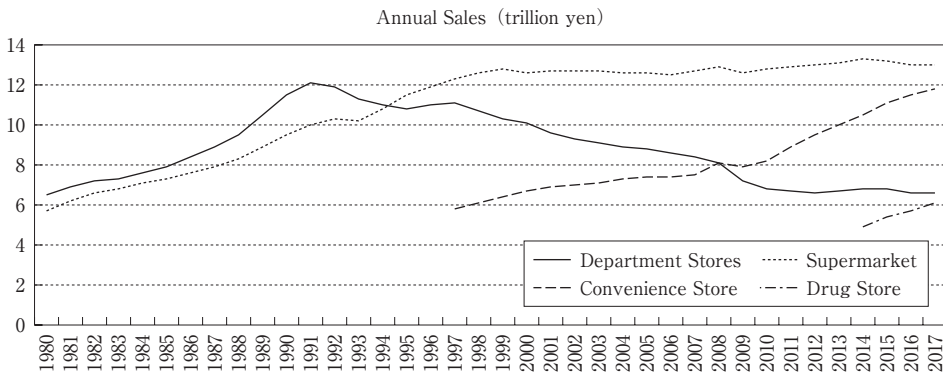
Retail sales is one of the most important indicators of consumption expenditure. The following figures provide statistical breakdowns of the number of establishments, number of employees, and annual sales of key retail players, which also serves to depict the dynamics of Japanese retailing.

Figure 5.3: Comparison of Department Store and Supermarket in Japan (Number of stores and employees)

Source: Research and Statistics Department, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry.

Figure 5.3 provides a comparison between department stores and supermarkets, by the number of establishments and number of employees. It shows that both the number of establishments and number of employees of department stores gradually decreased after 2000. Whereas the number of establishments of supermarkets started to increase in the same period and the number of employees remained almost flat. In the case of supermarkets, it seems that the popularity of department stores among Japanese consumers was decreasing and the acceptability of supermarkets was increasing during the period. Supermarkets are well-known as less expensive and convenient super-shops to consumers.

Figure 5.4: Annual Sales of Department Store, Supermarket, Convenience Store and Drug store (trillion yen)



Source: Ministry of Economy Trade and Industry-2013, 2015, 2019

Figure 5.4 depicts the important trends of diversified retail sales in Japan. It is shown in the figure that the sales of department stores gradually increased until 1990, a trend that represents the rising acceptability of department stores among Japanese consumers. But, at the end of the 1990s, department store sales began to fall, and continued to decreasing. Our analysis shows that department store sales fell to 6.1 percent in 2017, the 21st consecutive year of the decline. Sales totaled about 6.1 trillion yen, the lowest since 1980. On the other hand, supermarket sales increased dramatically in the middle of 1990s, and the level of sales has continued to climb over the period, though the growth of sales from one year to another is very slow from 2000. Nonetheless, it proves that there was a high level of acceptability of supermarkets among Japanese consumers. In terms of convenience stores and drugstores, sales also increased over the period, though the level of sales for both cases remained below that of supermarket sales. In this regard, Nippon.com (2019)⁹⁾ reported that factors contributing to the decrease in total retail sales include diminished personal consumption, due to a string of natural disasters since the summer season, including landslides and floods in western Japan and a major earthquake in Hokkaidō. Stockdill (2011)¹⁰⁾ mentioned 100-yen stores — retail chains of Japan are selling both privately branded and non-brand homewares and living wares and are still growing. It can be concluded based on the analysis that Japanese consumers' acceptability of and reliance on the cheap-

est and most convenient retail formats are increasing. The analysis shows the downturn of economy and slump in consumption expenditures.

5 - 3 Changes in Retail Law and Emergence of 100-Yen Shops

Katsumi (2014) indicated that the LSRL strictly restricted large-scale retailers (LSRs) and protected small-and medium-sized retailers, from the mid-1970s to the 1990s. The LSRL was amended to ease the opening of new LSRs in 1992. This changing environment in Japanese retailing resulted in the expansion of LSRs, alongside small and medium retailers. Intense competition rose gradually among different formats of retailers, because of the rapid expansion of the retail sector in Japan after 1992. Katsumi (2014) also found consumers were the main beneficiary of this metamorphosis in retail structure, since it enhanced consumer welfare via a reduction in retail price.

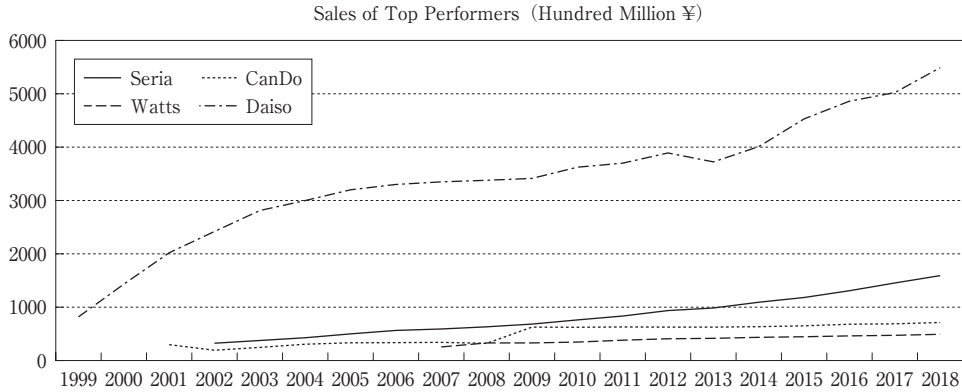
Lottanti (2010) identified some important changes in Japanese retailing after the revision of the LSRL. Some important drivers were direct sourcing from manufacturers, empowering retailers, initiating POS system, and relaxing foreign affiliation, which also played a significant role in enabling low-price retailers, like the 100-yen shops to survive in the competition. Shared Research (2018) mentioned that 100-yen shops transformed to competitive retail chains from a truck-based operation after 1990, which is also a reflection of the changing patterns of retail laws.

5 - 4 Facing the Fierce Competition with Other Retail Shops

Facing the Fierce Competition with Other Retail Shops

The Japanese retail market is more diversified than the retail market in other developed countries, like Germany or other European countries (Flath and Nariu, 1996). Low-cost retail chains, exemplified by 100-yen shops, have confronted severe competition from other retailers because of new amendments in retail law, the rise and fall of different formats of retailing, and the economic downturn. The following section examines the status of 100-yen retail chains and their strategies to stay competitive in the stagnated economy and in the face of intense competition.

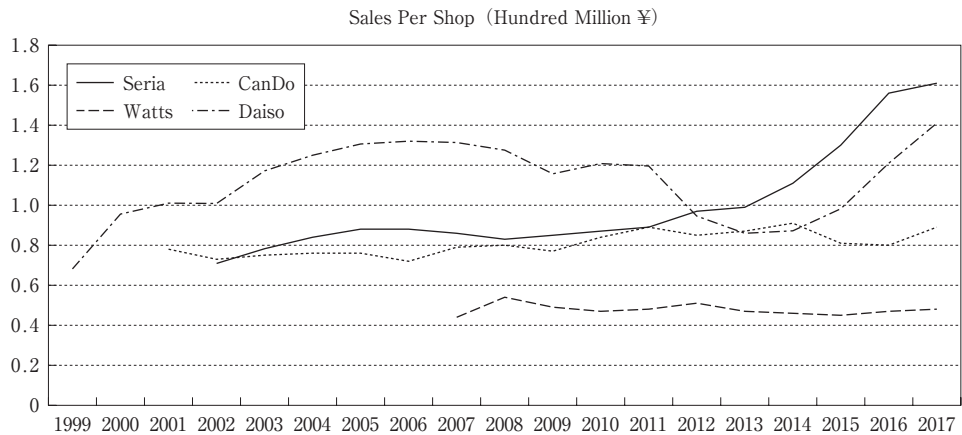
Figure 5.5: Sales per Shop of Top 100-Yen companies



Source: Website of Daiso and Annual Reports of Seria, Can Do, Watts.

In terms of growth of total sales, Daiso is in a competitive position as the vanguard of 100-yen retail chains. Figure 5.5 shows that annual sales of the top performers increased over the period. Growth of sales of these companies are sometimes interrupted by internal forces and external forces; for example — supply of capital, debt ratio, availability of on-demand products, effective inventory system, frequent changes of retail law, ability to comply with the new amendments of retail law, growth of household income, host country trade and investment policies, and culture of host country (Hitt et. al., 2013).

Figure 5.6: Trend of Sales of Top 100-Yen companies



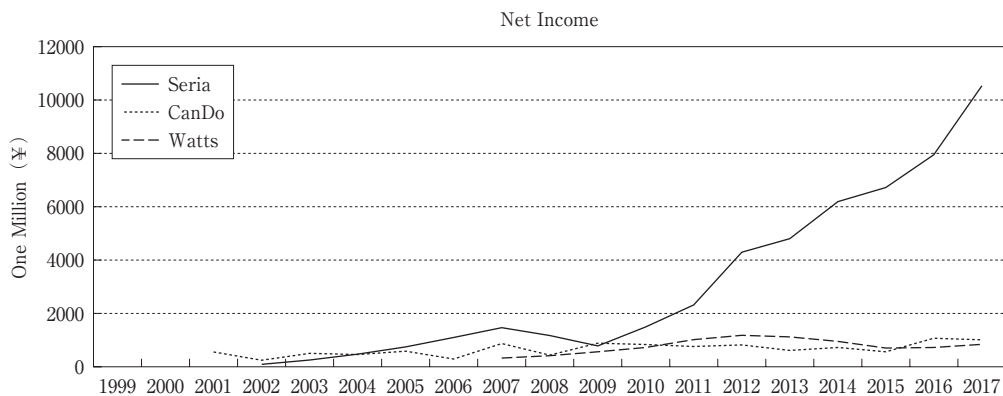
Source: Website of Daiso and Annual Reports of Seria, Can Do, Watts.

Figure 5.6 shows the sales per shop of top performers for about two decades. Sales per shops for all top companies went up over the stipulated period with few fluctuations. Daiso is also in the top position, in terms of sales per shop relative to other performers. Daiso is the top-ranked company among 100-yen retail chains, in terms of growth of capital, total assets, number of employees, number of shops, number of products, and number of overseas operations (Shared Research, 2018). In this term, Seria, CanDo, Watts positioned sec-

ond, third and fourth, respectively with slight fluctuations. Hitt et. al. (2013) mentioned that sales per shop may vary from one company to another because of attractiveness of shop location, local competitors, new entrants in the market, and variation in consumer needs.

Sales growth of top 100-yen performers is driven by store counts, gross sales, and sales per store. Number of stores, gross sales and sales per store of Seria have been increasing gradually from its birth to the current fiscal year. This expansion is the result of Seria's product line-up, based on special theme stores, named as *color the day* to attract women and students with its natural, stylish, and simple products, advanced technology-based ordering support system, active collaboration with manufacturers in design of products and production, promotion of online sales, and success in developing new stores. Daiso sales have risen rapidly, but its sales per store have fallen in the mid-2010s. Daiso's sales per shop not only depend on domestic shops but also on the success of a large number of overseas stores. Sales of both Can Do and Watts have risen slowly, but sales per store have been trending downward for both companies.

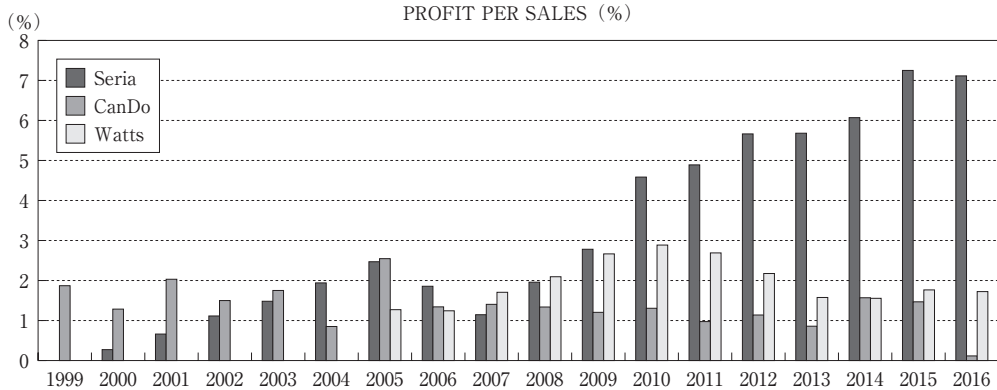
Figure 5.7: Trend of profit of Top 100-Yen companies¹¹⁾



Source: Annual reports of Seria, Can Do, Watts.

It is shown in the Figure 5.7 that Seria increased its net income from 2002 to 2007. There was a sharp fall from 2008 to 2009, after which Seria continued to show a rising profit until 2017. On the other hand, there were small ups and downs in the net profits of both CanDo and Watts from 2001 to 2017. Nonetheless, the profit trend of Seria, as a second performer, climbed sharply after 2013 because of the dramatic increase in its number of shops from 2012, relative to its competitors.¹²⁾ Hitt et. al. (2013) noted that companies' growth of profit depends significantly on the economies of scale, where every company must ensure maximum production and minimum cost. As such, 100-yen companies are struggling to source low-cost products and the profit rate of these companies mainly depends on cost leadership strategy.

Figure 5.8: Profit per sales of top 100-yen companies



Source: Authors' calculation from Annual Reports of Seria, Can Do, Watts

Figure 5.8 outlines the trend of profit per sales of top 100-yen retail shops. Seria increased its profit margin dramatically from the beginning of the 2010s and the rate of profit peaked at about 7%. There were small differences between the three performers from the beginning of the 2000s to the mid-2000s. However, the ratio of profit per sale started to rise dramatically from 2011 and the margin of profit per sale peaked at approximately 7 percent in 2018. The margin of profit for both Can Do and Watts fluctuated over the stipulated period from 2001 to early 2018, but remained under 3 percent. Profit and sales of 100-yen companies are not confined to the sales of 100-yen fixed-price products. Rather, these companies earn profits from retail sales of multi-price products, apart from 100-yen fixed-price products, wholesales, and franchising. The official website of Seria, as well as its annual report (2013), shows that the introduction and application of a proprietary ordering support system in Seria intensified the sales of relatively profitable sundries, lowered the ratio of franchised stores, and cut costs by providing information to suppliers. Seria also attracted repeat customers away from competitors. It also maintained higher sales at existing stores and lowered the selling, general, and administrative (SG&A) cost more than its competitors. In a word, attracting repeat customers, using more cutting-edge technology than its competitors, making both store sales and online sales, selling multi-price products, and targeting segmented customer groups with stylish and natural sundries intensified the profit margin of Seria.

In the above figures, it is clearly visible that growth in financial performance of 100-yen companies is not static over the period and varies from one company to another. The main reasons for this variation are each company's distinctive product strategy, corporate strategic plan, the target customer group, business expansion plan, and procurement plan.

Flath (1990) found that Japan's highly developed wholesaling network and goods originating in geographically-compact Japan both work to expand the multitude of tiny stores. He also noted that there are a larger variety of retail stores in Japan, compared to the U.S.

and virtually all European countries. These retail formats are identified by distinct features. For example, convenient stores provide 24-hour non-stop service and have diverse services apart from a variegated product line; drug stores satisfy the need, not only for medical products, but also daily necessities; and there are numerous other variations, in terms of products and services, across various types of retailing.

The 100-yen chain store is also a widely featured retailer in Japan, recognizable mostly for its distinctive low-cost strategy. It has been found that, against a backdrop of deflation, yen appreciation, and relatively low-cost labor in China after the 1990s, the 100-yen retail chains learned to procure and sell products at low prices. This also exacerbated the consumer demand for low-price items. These stores grew by taking market shares away from supermarkets for household goods and personal effects. After Japan's economic bubble burst, rapid deflation prompted a sharp increase in the number of 100-yen stores and 100-yen retail chains became a *growth industry* in the 1990s in Japanese retailing. During this period, yen depreciation, around the Asian currency crisis of 1998, led to an industry shakeout. The result was an oligopolistic market with four major 100-yen players (Daiso, Seria, CanDo, and Watts). Yamamoto and Whang (2018) indicated that Daiso strategically adapted its operation to the changes in foreign exchange rates and local demands. To be price competitive outside Japan, Daiso directly distributed products from manufacturing plants to its stores located outside of Japan, rather than using the Japanese RDCs as delivery hubs. Moreover, some of Daiso's later stores modified the treasury hunt business model and aimed to provide a selected number of specialty products. As of 2016, Daiso had yet to achieve meaningful levels of online sales. Yamamoto and Whang (2018) also added that Daiso's most prominent competitor was Seria, which had advanced the POS system in 2004¹³⁾ and had been investing in technology to meet the competition. Seria introduced the Seria *Web-Electric Data Interchange System*, connecting itself with manufacturers to improve the merchandise turnover ratio, as well as palm-vein authentication security devices to manage employees' work hours more efficiently.¹⁴⁾ In addition, Seria started selling online and major competitors among 100-yen chains now are offering multi-price products to compete with other retail formats. According to Yamamoto and Whang (2018), Daiso founder and president Hirotake Yano commented that growth of the company has been achieved solely through constant trial and error, and learning from mistakes since the company was founded. He also said that, from its birth, the main theme of the company was survival, and not growth.

6. Conclusion

There is a dearth of studies on how 100-yen chain shops have emerged in Japan, how

they have survived, and how they have been managing a well-equipped supply chain. This study has explored the aforesaid research questions. A booming economy and new amendments to the retail law in the 1990s cultivated a new retail environment in Japan, which called forth a turning point in Japanese retailing. This is how 100-yen chain shops emerged in the mainstream of low-cost retail chain as an important part of this turning point, transforming after 1990, from a truck-based pop-up operation into an extensive domestic chain of stores that generated 700 billion yen in sales in 2017. The trending downswing of the economy in the 2000s, along with changes in retail law, led Japan to diversify the retail market, such that consumers shifted from most popular department stores to supermarkets and the cheapest retail alternatives. This continuous trend favored the emergence of 100-yen retail chains in Japan

Low-cost outsourcing, bulk ordering, acute integrated POS system, uncluttered distribution channels, the distribution of products through RDCs, and launching RFID e-paper in the inventory management system have equipped the supply chain of 100-yen shops to operate effectively and efficiently. Moreover, this well-equipped supply chain is the pedestal of the whole distribution channel of the 100-yen retail chain, and also the key tool of economies of scale in 100-yen retail operations. The analysis shows that sales, net income and profit per sale of top performing 100-yen companies are increasing gradually, due to the continuous development of new products and diversification of the product line, advanced technology — based ordering support system, and expansion of new stores with new themes.

Now, the important concern is how 100-yen shops have been surviving amidst the fierce competition. From the 2000s, the four leading operators (Daiso, Seria, Can Do and Watts) of 100-yen retail chains employed various growth strategies to survive in the retail dynamics of Japan. These strategies include adopting multilevel pricing, expanding operations overseas, introducing POS systems, launching new store formats, and introducing online shopping. Although information on industry leader Daiso is limited, because the company is unlisted, Seria led CanDo and Watts in introducing an integrated POS system and opening new types of stores that rapidly intensified growth of business. In addition, online selling, product assortment dynamics, trial and error strategy, learning by doing, and a wide selection of products are the main forces driving the survival of 100-yen retail chain in the stagnated economy of Japan. Retailers in Japan, with the exception of 100-yen stores, changed their price policy to adapt to the economic volatility in Japan, from the 1990s to the 2010s. But 100-yen retail shops provide products at one price (100 yen + tax 8 yen), although recently they are providing products for 300 yen or 500 yen as well; 100-yen shops are gradually adopting this multi-price policy to stay competitive amidst fierce competition.

In addition, 100-yen shops mainly focus on selling attractive household sundries, which

are nondurable and lower quality, compared with the same product line from department stores and supermarkets. However, the 100-yen product line doesn't include perishable items, as supermarkets do. Department stores, supermarkets, convenience stores, drug stores, and other retail chains maintain larger product lines than 100-yen retail shops do. Therefore, 100-yen shops can easily concentrate on the few suppliers with whom they engage in direct collaboration for product design and manufacturing. On the other hand, supermarkets and other retailers must maintain relationships with various suppliers, nationally and internationally, to manage gigantic shelves of more diversified product lines. Launching special product lines on different occasions, for example — Valentine's Day, Christmas, New Year's, and Cherry Blossom, is also one of the strengths of 100-yen shops that has allowed them to survive amidst severe competition. From this perspective, the product lines of 100-yen shops are almost fixed over the period, so they can maintain inventory of a single product for a long time, compared with other retail formats.

Further, less capital and fewer liabilities, compared with other retail formats, have also intensified the capacity of 100-yen shops to survive in the market. Financial conditions and efficient capital management are also very important concerns, related to staying competitive in the market. The annual reports of top performers show that Seria reduced its wage and labor costs, the cost of merchandise, store occupancy costs, and freight costs, though Seria had less capital than Can Do until 2010.

Although this study did a trend analysis to investigate the dynamics of Japanese retail industry, we did not discuss determinants of the number of retailers across Japan. To investigate this issue, we have to follow social optimal model (Flath, 1990) and spatial competition model (Capozza and Robert, 1978) for building a regression model.

Acknowledgement

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Notes:

- 1) <http://www.daisoglobal.com/products/>
- 2) What are the differences between the 100-yen shops? <http://100yenshopping.com/differences-100-yen-shops>.
- 3) Comparing the Big Five 100-yen Shops in Japan. <https://guidable.co/shopping-service/>

- comparing-the-five-100yen-shops-in-japan/
- 4) A New Era in Japan's Retailing Market: Deregulation Paves the Way for Inroads by Foreign Groups, Special Report 4. <https://ratthapr.files.wordpress.com/2007/10/14-15p.pdf>
 - 5) The evolution of 100-yen shops and how they've changed people's lives. <https://japantoday.com/category/features/kuchikomi/the-evolution-of-100-yen-shops-and-how-theyve-changed-peoples-lives>
 - 6) "Core Report," Toyo Keizai Magazine, October 11, 2014.
 - 7) "Strategic Thinking + Logistics Revolution," Nikkan Kogyo Newspaper, April 22, 2015.
 - 8) Critchlow Blog, "Why Location is the Most Important Factor in Retail Success," <http://www.critchlow.co.nz/blog/why-location-is-the-most-important-factor-in-retail-success>.
 - 9) <https://www.nippon.com/en/japan-data/h00383/japanese-department-store-sales-fall-by-a-third-in-20-years.html>, "Japanese Department store sales Fall by a Third in 20 Years, February 8, 2019.
 - 10) Robert Stockdill (2011), "The changing landscape of Japanese retailing", <https://www.insideretail.com.au/news/the-changing-landscape-of-japanese-retailing-201104>.
 - 11) In this case net income refers the residual amount of earnings after all expenses have been deducted from sales.
 - 12) Seria, Annual Report of 2017.
 - 13) Seria Company data.
 - 14) Ibid.

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