

**SOME OBSERVATIONS ON JAPANESE RETAILING STRATEGIES:
LESSONS FOR EASTERN EUROPE AND AMERICA**

Claudius Claiborne, NC A&T State University
A. Coskun Samli, NC A&T State University

Abstract

This paper develops the concept of a "balanced retailing market" and contrasts it with "buyers" markets and "sellers markets" in Eastern Europe and America. Features of the Japanese retailing environment are used to illustrate retailer tools, customer actions, and the end result for such a market situation. A comparative analysis of seven important retailing factors is made to assess the degree of adequacy of each of these factors in the concomitant markets.

Introduction

Retailing in a "seller's market" (Samli, 1978, 1983, 1987) and retailing in a "buyer's market" (Evans and Berman, 1986; Lewison and Delozier, 1986) are contrasted by studying East European and American retailing practices. By virtue of the prevailing economic conditions, the retailing sector in East European countries has been enjoying a seller's market. In these countries the retailer's problem primarily is not how to sell but how to find merchandise to sell. Indeed, each time a new retail establishment is opened there will be a long line of customers to enter and buy certain things that they need. This situation has not changed much during the past four decades. In a seller's market situation the retailer's sensitivity to customers' needs is virtually nonexistent. Similarly, the retailers do not need to promote themselves. They sell their products or services on a "take-it or leave-it" basis. They have been conducting their business in this fashion for a long time. Therefore, almost by definition, what has evolved in American retailing has not yet taken place in East European retailing. In other words, the "customer orientation" with its heavy emphasis on promotion, customer credit liberal return and exchange policies, has not yet reached East European countries on any large scale. At the other end of the spectrum, because of the dynamic nature of prevailing competition and primarily because of the emphasis on customers and on selling, the American retailing sector has become quite proficient in marketing with the 4 P's. Of course, this proficiency is at least in part caused by the highly competitive nature of the market, which implies the presence of a "buyer's market". Is there such a thing as a balanced market which is an alternative to both buyer dominated and seller dominated markets? How would the retailing sector function in a balanced market? The authors' position in this article is that the Japanese retailing system comes very close to what is called here a "balanced market." Within that context the authors generalize some features

of Japanese retailing that may be associated with the balanced market concept.

The Concept of the Balanced Market

Alfred Marshall (1920) pointed out that when demand and supply meet there is either a buyer's surplus or a seller's surplus. In other words, if there is a "buyer's market", the buyer will have a surplus because the buyer is in a better position to negotiate or the economy is in a recession or depression. Therefore, the buyer can pick and choose what to buy and how much to pay. However, if it is a "seller's market", then the seller can determine the terms of exchange. In such situations there is either a deficiency of supply, that is, demand is growing faster than supply, or the economy is booming. This implies substantial profits for the seller at the expense of buyers.

If both parties (i.e., buyers and sellers) have optimized their position, then buyer's surplus and seller's surplus will disappear and the market will cease to be a buyer's or a seller's market. It is proposed in this paper that the economy which is neither a buyer's nor seller's market may be termed "balanced". Balance here implies that buyers and sellers have smooth and well established relationships that are mutually satisfactory (See Exhibit 1). It also means that nobody benefits at the expense of somebody else (Nishimizu & Hulten, 1983; Kellman and London, 1984).

The smooth relationship between buyers and sellers is depicted by a series of attitudes and functions. Exhibit 1 implies that the smooth relationships depicted in the Exhibit are more prevalent in Japan than the U.S. or Eastern European markets.

Although there are no methodologies to verify this situation, certain retailing practices may indicate the presence of a balanced market in Japan. By contrasting the retailing practices in Eastern Europe, primarily a seller's market, and retailing practices in the U.S., primarily a buyer's market, with those prevailing in Japan, the concept of a balanced market can be demonstrated.

The authors have personally observed and discussed the concepts of this paper with other marketing professors who also have experienced Japanese retailing practices. While the discussions were based on unstructured observations, four features of the Japanese retailing environment surfaced: sensitivity, awareness, effort, and perception related to actions and attitudes of store personnel.

Exhibit 2 illustrates these key features, how they are applied, and their obvious impact.

Sensitivity: Perhaps one of the most important features of Japanese retailing is depicted by the sensitivity displayed to customer needs (Hamada, 1984). Salespeople make a special effort to understand the customer's needs. Retailers question the customer carefully just to make sure that they have understood what would satisfy these needs. The logical follow-up of this sensitivity is the actual satisfaction of the customer's needs. This outcome implies a successful sales effort on the part of the retailer which leads to strong customer loyalty.

Awareness: The retail salesperson is aware of what the store has to offer and what can be done with this offering to satisfy the customer's need. Basically, the retail salesperson is very familiar with the product available in the store and the specific product features. Thus, the retail salesperson can give the best possible options to the customer. Although typically the price is fixed, the retailer can make it somewhat flexible by throwing in certain bonuses to satisfy the customer. These bonuses may include certain types of services or free gifts. As a result of this awareness feature, the typical retail store maintains a high turnover rate and achieves mutual satisfaction with its customers.

Effort: It is almost always obvious that the Japanese sales clerk is making an effort to satisfy the customer. Typically, the retail salesperson is very well acquainted with the customers and their needs. However, if the retail salesperson is not acquainted with the customer or the needs, there is a general expression of genuine sincerity trying to understand what the customer needs. The retail salesperson spends just enough time to give the customer the best alternative to satisfy the expressed need. The outcome of this effort is a high degree of productivity.

Preception: The customer in Japanese retailing appears to be perceived almost as a friend and/or a relative. Thus, one cannot help but notice the expressed respect for the customers and their needs by Japanese retail salesperson. The orientation often is one of giving a gift to a friend or a member of the family rather than one of selling. The outcome of this type of orientation is a continuing satisfactory relationship which particularly is indicative of the balanced market.

Although it is difficult to substantiate, two opposing scenarios can be proposed to explain the state of Japanese retailing: first, that the society has reached a certain level of development and stability and that these features have extended into the retailing sector; or secondly, that the retailing sector has come into balance because of the

economic prosperity Japan now experiences, with its accompanying abundance of goods and demand for ownership.

American and East European Buyers and Sellers Markets

In order to understand the features of Japanese retailing better it is helpful to compare them to those of Eastern Europe and the U.S. Seven factors depicting retailing effectiveness may be considered. It may be noted that there are no commonly accepted variables for international comparative retailing. These seven are a most logical choice for the type of observations presented in this paper: (1) need satisfaction; (2) customer loyalty; (3) sales effort; (4) merchandise mix; (5) turnover rate; (6) degree of productivity and (7) continuing satisfactory relationship. Exhibit 3 presents a comparative analysis to establish relationships between the four features of Japanese retailing that were presented in Exhibit 2 and the seven factors presented in Exhibit 3. The functioning of the seven factors depends very greatly upon these four features.

Need Satisfaction: Satisfying the needs of customers is not standard procedure in East European countries. Even with the best of intentions the retailers cannot satisfy customer needs because of acute product shortages. East European stores are not well stocked, and hence they barely satisfy customer needs. Furthermore, in many East European countries, retailers are government employees, and their well-being is not tied to the store's well-being. As a result, the retail salespeople rarely try to please the customer (Samli, 1978).

In the U.S. most of the conditions are quite appropriate for the customer's satisfaction, i.e., retailers have the products and motivation to do a good job. However, because the retailer does not know the customer personally and because pressures for retailers to sell are at times excessive, customer needs may either be incompletely satisfied or occasionally "over-satisfied", leading to ineffectiveness in the retailing process.

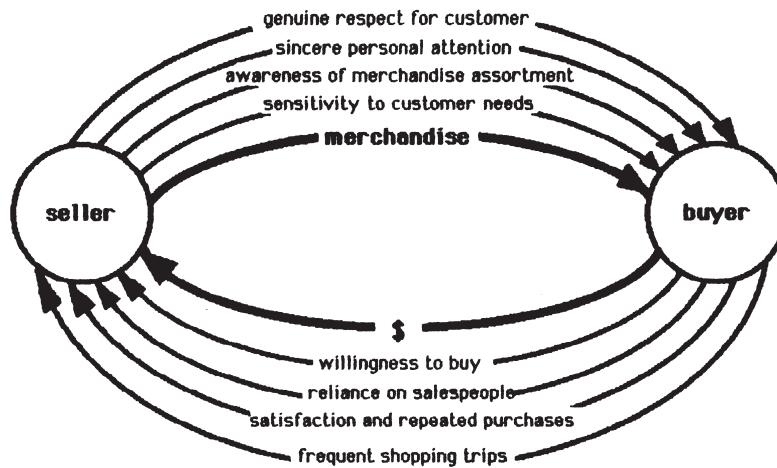
In Japan, because the retailer-customer relationship is well established and because the retailer knows the customer almost intuitively, customer needs are satisfied more successfully.

Customer Loyalty: Customer loyalty in East European retailing is not by choice. Because of certain formulae (Samli, 1978), retail establishments are located in certain places and are not duplicated. Thus, the consumer has a limited selection of stores. As a result, they go to the same store for very long periods of time.

Since the U.S. is a very dynamic society, consumers move around. It has been stated that approximately 20 percent of Americans move yearly. Even a move across town changes retail affiliations. Additionally, the average

longevity of retail establishments is not very high. Customer needs and wants also change quite often, and therefore over time consumers may frequent different retail establishments. Thus, only in rare cases is there a long-lasting customer loyalty.

In Japan, both business and consumer sectors are very stable. Consumers do not move very often, and retail establishments stay in business literally for generations. But particularly because their needs are satisfied,



A Balanced Retailing Market

Exhibit 1

Exhibit 2

Aspects of Japanese Retailing

Features	Tools	Action	End Result
Sensitivity	Careful questioning; Understanding customer needs	Satisfying customers	Positive sales effort and customer loyalty
Awareness	Knowledge of merchandise in store; Latitude in giving	Giving the best the store has to offer to customers	High turnover rate and mutual satisfaction
Effort	Displayed sincerity Personal acquaintance with customers	Spending time to give the best alternative	High degree of retail productivity
Perception	Expressed respect for customers and their needs	Acting as if the customer is a best friend or part of the family	Continuing satisfactory relationship

Exhibit 3
**Comparative Analysis of Eastern European,
 U. S. and Japanese Retailing**

Factor	Degree of Adequacy		
	East Europe	U. S.	Japan
Need Satisfaction	Very Low	Medium	High
Customer Loyalty	High (but not by choice)	Medium	High
Sales Effort	Very Low	Unnecessarily High	High
Merchandise Mix	Very low	Unnecessarily High	High
Turnover Rate	Medium	Medium	High
Productivity Level	Very Low	Medium	High
Continuing Satisfactory Relationships	Very Low	Medium	High

customers are very loyal to the retail establishment.

Sales Effort: In East European countries, because of shortages and because of the absence of incentive systems, the retail salespersons do not make much of a sales effort. Again, the shortages account for this situation.

In the U.S., much of the time the retail salespeople are almost overzealous. Incentive systems, competition and unfamiliarity with the customer and customer needs may motivate the salespeople to try to sell as much as they can and perhaps to sell the most expensive options.

In Japan, on the other hand, there is a well established relationship and understanding between the retail salesperson and the customer. The retail salesperson may make just enough of an effort to satisfy the customer's needs. Thus, a low key sales effort becomes very adequate.

Merchandise Mix: In East European countries, the merchandise mix is a critical problem. Even if the retailer were to have the motivation to adjust the merchandise mix to consumer needs, this may not be possible. Acute shortages of different products are the norm. This situation makes it difficult to plan effective merchandise mixes.

In the U.S. the merchandise mix is usually quite adequate, but two problems still prevail. First, due to the retailer's lack of knowledge of the customers, the merchandise mix may be off target; and second, again because of this

lack of information, the inventory mix could be more adequate.

In Japan, on the other hand, because of the familiarity of the retailers with their customers and customer's familiarity with the retailer, the merchandise mix can reach a higher degree of adequacy. What customers cannot find can easily be communicated to the retailer. Furthermore, since the retailer knows the clientele very well, seldom, if ever, will there be an occasion where the merchandise mix will be off target.

Turnover Rate: In Eastern Europe the inventory turnover rate is rather erratic. Since there are serious shortages, certain products turnover quite fast. However, often there are numerous products that are not geared to the specific needs and desires of the stores' clientele, and these products move very slowly.

In the U.S., lack of personal knowledge of the clientele combined with efforts to provide customers with a wide range of selection slows down the turnover rate. However, salespeople's overzealousness and heavy promotional efforts accelerate the turnover rate.

In Japan, personal familiarity with the clientele and offering the type of merchandise that customers want to buy provides the basis for higher inventory turnover rates.

Productivity Level: In Eastern Europe, particularly because individuals are not motivated, productivity is low. Additionally, even if the retail salespersons were to be motivated, certain products may just not move. These products are not produced on the basis of market information and inputs from consumers. Thus, high retail productivity is not readily prevalent.

In the U.S., retail productivity is relatively high. However, because of the excess inventories and lack of personal familiarity with the customers it may take longer for the merchandise to move as fast as it would otherwise. Thus, even though productivity, in terms of sales per transaction or sales per advertising dollar may be high on the average, the U.S. efficiency can be improved.

In Japan, on the other hand, both buying as well as selling on the part of the retailer is done with the customers in mind. Since the retailer is very familiar with the customers, both buying and selling are efficient and on target. Thus, retail productivity is the highest.

Continuing Satisfactory Relationships: In East European countries, customers come to the same retail establishment not necessarily by choice but because of the lack of options. Although not satisfactory there are continuing relationships between the retailer and the consumers. The fact that the population is not highly mobile is also a contributing factor to this long lasting relationship. Because needs are not satisfied adequately, because sales efforts are quite superficial, and primarily because the merchandise mix is deficient, the relationship is not satisfactory.

In the U.S., because of excessive competition and ever increasing alternatives for the retailer's customers and because the population is highly mobile, continuing satisfactory relationships exist only to a certain extent. Some of this cannot be remedied until the population becomes more settled, and the retail salespeople become more familiar with their customers.

In Japan, because of high need satisfaction facilitated by effective sales effort and an appropriate merchandise mix, the relationship between the retailer and the clientele is highly satisfactory. This relationship is also long lasting because of the society's stability. Both retailers and consumers remain in the same place for a long time, and the relationships continue for generations.

Conclusions

If one were to consider Eastern Europe as a seller's market and the U.S. (typically) as a buyer's market, one may venture to call the Japanese market balanced, or neutral. This

neutrality implies almost the type of equilibrium described in economics textbooks. Both buyers and sellers are satisfied, and there is not much tendency to change. Such a situation is achieved by the retailer's being very knowledgeable about their customers and the merchandise that they sell, and also by being very concerned about the customer's well-being.

The Japanese example can hardly be transplanted into East European countries, since consumer goods are not properly emphasized there. Furthermore, the system does not provide good incentives for the retailer to do a better job of satisfying the consumer's needs. Similarly, it is also difficult for U.S. retailers to simulate the Japanese model. There are at least three reasons for this: (1) the American population is quite unsettled; Americans move around very often, thus it becomes impossible for the retailers and the consumers to establish a Japanese style bond; (2) incentive programs in the U.S. are not effective enough (or too effective) to provide motivation for the retail salespersons to feel that they are selling to members of the family. Finally, (3) American retailing is not settled yet in the sense that a retail establishment can exist in the same location and will remain in the same family for generations. There are a number of lessons that can be learned from Japanese retailing:

1. The closer the retail salespeople are to their customers, the greater the possibility of customer satisfaction
2. Better knowledge of customers can increase the effectiveness of the merchandise mix and sales efforts
3. A long-range orientation in establishing strong ties with customers is likely to benefit both parties
4. Such a long-range orientation is also likely to increase retailing efficiency.

The discussion in this paper was particularly relevant for small and medium size retailers in all three markets. As we know in the U.S., the "personal touch" is lost as large-scale retailing takes over.

Much work remains to be done in determining if the emergence of large scale retailing in Japan will change the overall picture. It is quite possible that as more retail giants emerge on the Japanese scene, the retail sector may become similar to that of the U.S.

At the higher and more theoretical level the concept of a "balanced economy" as presented in this paper needs more attention and research. It is quite possible that such a concept may provide goals and directions for third world economies.

As for East European retailing effectiveness, if these countries continue making economic

progress, they will have to learn some lessons from the U.S. as well as from the Japanese models. Once the supply picture is improved (if ever) and retailers are given better incentives, Eastern Europe retailing can also become quite effective.

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