流通科学大学論集—流通・経営編—第 28 巻第 2 号，23-43（2016）

Business Development of *Seven & i* in China

ー Competitiveness of Japanese Retailing Company ー

Donghao Li*

Seven & i Holdings Co., Ltd. is highly competitive in the retailing industry in Japan. When it expanded its business recently in emerging markets including China, while accumulating abundant trial and error localization practices as well as flexibly executing Japanese business conventions, it successfully responded to the dynamic changes in the business environment and international management context. By examining these themes, this paper adds new evidences and points out that the Japanese manufacturing and retailing industry are highly competitive around the world.

Keywords：Comparative advantage, Japan, China, Retailing, Seven & i

1. Introduction

At the end of 2003, ***Seven & i Holdings*** (***S & i*** also used below) showed no intention of expanding its overseas retail developments.

Even though it had obtained permission from the State Council of China to be the first qualified nationwide foreign retailing company in China (as early as 1996[1]), it focused on only the two cities of Beijing and Chengdu (in Sichuan Province, inland China) for 8 years until 2003, with its subsidiary company ***Ito-Yokado*** in the form of General Merchandise Supermarket (GMS) store with only five stores in total in China. At the same time, the French company ***Carrefour*** operated 41 stores in China, and the U.S. company ***Wal-Mart*** operated 33 in China (Yahagi 2005)[2]

However, the average sales of a single ***Ito-Yokado*** store in 2005 in China, was approximately 1.8 times that of ***Carrefour***, 2.5 times that of ***Wal-Mart***, and also about 2.3 times that of its Japanese rival company ***Jusco***, a GMS form of ***Aeon***, another major retailing company in Japan[3] (see Table 7). These results are evidence of the excellent management of ***Ito-Yokado***.

From the perspective of Corporate Social Responsibility (CSR), ***Ito-Yokado*** initially introduced and established the internationally developed management methods of the Japanese retailing industry to China, promoted local tax revenue and employment growth, and fundamentally improved and modernized the Chinese retailing industry[4].

---

*流通科学大学商学部、〒651-2188　神戸市西区学園西町 3-1

（2015 年 9 月 1 日受理）

The competitiveness of ***Ito-Yokado*** is not just revealed by its financial performance.

For self-perpetuating companies in the world to provide useful goods and services, it is essential for them to pursue profit. However, improved financial performance is not the only indicator of an excellent company. Financial data information is superficial and at best reflects the business situation. In order to achieve high performance, there must be unique and inherent competitiveness factors below the surface.

When global enterprises go overseas to develop international business, they adapt their management style to local customs and native culture, that is to say, the "local adaptation" or "localization" strategy is the fundamental principle of international management. This so-called "Do in Rome as the Romans Do" principle is essential. However, "standardization" or "homogenization" is also required. That is, based on their genetic business system and other company-specific unwritten implicit know-how, rules and customs in their home country established over many years, companies cultivate their "standardization" and transplant them overseas.

In the field of global marketing, "localization" and "standardization" remain controversial subjects. Since Buzzell (1968) emphasized the "balance between standardization and localization" in the ***Harvard Business Review***, "standardization" has attracted increasing attention[5].

Kagono (1997 p.219) argued that "when Japanese companies go overseas, both ends of basic principles and details were not adapted to localization but adhered to their own way of standardization". This conclusion mainly refereed to Japanese manufacturers in the 1980’s and 1990’s, but as seen from the following analysis, the study on overseas business development of ***S & i*** going abroad to China, the Japanese service industry adopted the same approach. In other words, when expanding overseas, not only for the Japanese manufacturing companies but also for the service companies, "following the Japanese Business Style" rather than "local adaptation," management was executed thoroughly. The first section of this paper examines this topic. The second section examines the strategic choices of developing in global markets such as how to adapt managerial experience and know-how to the local country. The third section examines operational management practices such as how to implement the localization or standardization (or globalization).

The balance between localization and globalization is controversial. In this paper, the key point is how to transplant the basic business essence forged during long-term Japanese management into local management. It is important to utilize and transplant the competitiveness strength of Japanese management, such as, "following the Japanese Business Style", "focusing on the details" and "making improvements every day." Since there are differences of society and culture, business environment and customs between Japan and local countries, this trial and error in the global localization process is not smooth.

This paper uses an in-depth, longitudinal case study methodology (Case theoretic approaches) to identify the comparative advantages of a single typical company (Yin 1989)[6]. In the first section, the case of ***Seven & i Holdings*** is examined to reveal the characteristics of its development process and its operational practices in China. In Section 2, the business system of ***S & i*** is surveyed. In Section 3, the process of expanding to China is investigated, and its competitive advantages in business explained. In Section 4, the problems and solutions by which ***S & i*** contrived to establish its local Chinese management style based on its traditional Japanese strength (the "localization" and "standardization" issue) are analyzed. In Section 5, the theoretical background to establishing Japanese-style management systems in China is analyzed, and finally, based on the facts and existing theory analysis, the conclusions are presented.

2. The "business improvement reform" competitiveness of *Seven & i*

2.1 Outline of *Seven & i*

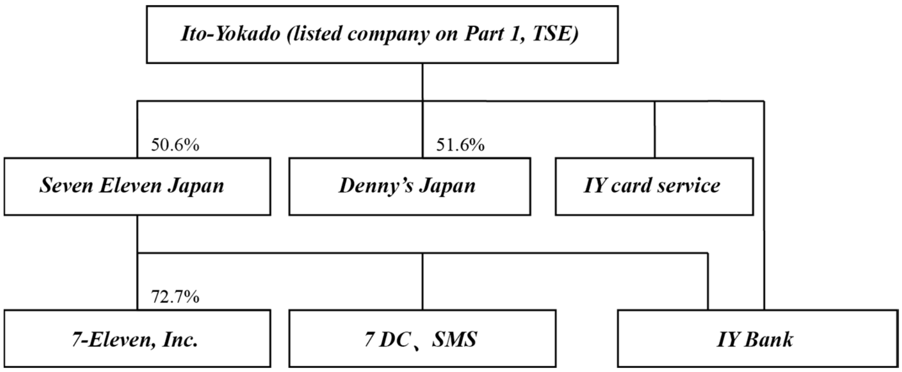
Ito-Yokado, a Japanese GMS, is the predecessor of ***Seven & i*** Holdings.

Ito-Yokado, founded as "***Yokado*** clothing store" in Tokyo in 1920, changed its name to "***Yokado*** Co., Ltd." in 1958 and listed on Part 2 in 1972, and Part 1in 1973 of the ***Tokyo Stock Exchange***. It already has more than 90 years of history.

Since its foundation, different from its competitors' business strategy of scale expansion, ***Ito-Yokado*** adhered to and emphasized its own quality-oriented management, focusing on profitability and managerial efficiency. Early in Fiscal 1977, it achieved 10 billion yen ordinary profit as the first chain supermarket store in Japan. Only 3 years later, with 23 billion yen ordinary profit in Fiscal 1980, it surpassed ***Mitsukoshi Department Store***, the former leading Japanese retailing company and became the new leader in Japan (Henmi 2007 p.6).

Prior to 2005, as the parent company, ***Ito-Yokado*** had a majority stake share in companies such as ***Seven-Eleven Japan***, and ***Denny's Japan***, and was called ***Ito-Yokado Group*** in the Japanese retailing industry. The main organization chart is shown in Table 1.

TABLE 1. Organization Chart of S & i before 2005



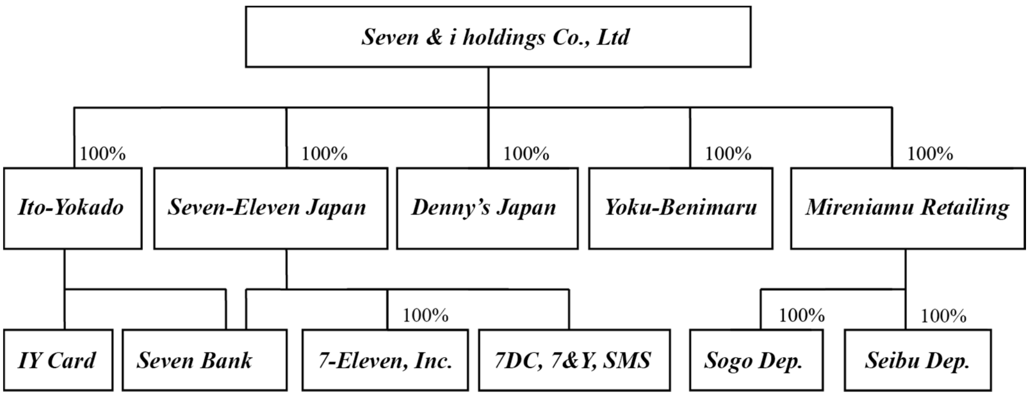
Source: based on ***Seven & i*** Holdings corporate outline 2006. 7DC is seven dream dot-com, SMS is Seven Meal Service.

However, ***Ito-Yokado***, which used to achieve high profitability, was overtaken by ***Aeon*** in both sales and operating profit in Fiscal 2003 and Fiscal 2004. Under the internal and external business environment, although still as parent company, ***Ito-Yokado*** suffered a slowdown in growth, and even its ***market capitalization*** was exceeded by that of its subsidiary company ***Seven-Eleven Japan***, and it fell into the dangerous situation of being a reversed parent-subsidiary in the stock market. Sometimes the stock dividend and profit had to be made up from the subsidiary company.

At the same time, the TOB incident executed by Livedoor for Nippon Broadcast Station (NBS) occurred. ***Ito-Yokado*** was also exposed as the target of takeover. In order to escape from this dangerous situation, in September 2005, the traditional organization structure of ***Ito-Yokado Group*** was thoroughly reorganized to ***Seven & i Holdings*** group. Under this new holding company system, ***Ito-Yokado***, ***Seven-Eleven Japan***, and ***Denny's Japan*** etc. became 100 percent owned subsidiary companies. ***Seven & i*** as well as ***Aeon***, the two most powerful Japanese retailing companies, became to push forward amongst the world's top 10 retailing companies[7].

Table 2 shows the new organization chart of ***S & i*** since September 2005.

TABLE 2. Organization Chart of *S & i* since 2005



Source: based on ***Seven & i*** Holdings corporate outline 2006. 7DC is seven dream dot-com, SMS is Seven Meal Service.

2.2 "Business improvement reform"

Ito-Yokado is familiar with the zeal for management reform.

The essence of the service industry is to meet the full needs of customers. ***Toshifumi Suzuki***, Chairman of ***S & i*** says: "We must be concerned for and overcome any possible inconveniences of our customers. Capital or fund is of no interest neither are smaller or larger sales." "Forget the past. Our work is thinking through from the standpoint of customers." (NHK DVD 2005: ***Toshifumi Suzuki***).

As early as in 1980s, to counter weak performance, ***Ito-Yokado*** began to introduce the "business improvement reform" to enforce reforms of the entire management. This reform process has lasted for more than 30 years, and is well known in the Japanese retailing industry. These persistent improvement activities are aimed at helping the company adapt to the rapidly changing business environment, and constantly improve the competitiveness of ***Ito-Yokado***.

In the early 1980s, there was a period of rapid changes within the internal management constitution and management environment outside the company. Externally, these changes included the world's first oil shock in 1972, the execution and the amendment of the ***Law of Large-Scale Retail Stores*** in Japan in 1973, and from 1978, the economic transition of Japan from high growth to stable growth. All of these changes led to a tougher external management environment. Within the company, many problems accumulated during the years of rapid growth, such as the loss of adaptation to such times, inappropriate merchandise deployment and mismatch in market demand, the deterioration of inventory turnover, increased price reduction and waste losses, lost opportunities from increased occurrences of "sold out" and the like. Due to these internal and external influence factors, profit forecasts for the first-half year in 1981 began to fall. Top management was shocked by this first bad experience (Henmi 2007 p.11).

In order to escape from such a critical situation, an official "business improvement reform" was implemented from February 23, 1982 across the whole company. Differing from the usual corporate reforms, it was characterized by the following two points.

The first point was that there was no special "reform committee" to promote the reform. Instead, everyone in the organization of the company was positioned to carry out the reform as routine work. This was aimed at preventing external futile reform.

The second point was that there is no deadline for completion of the reform. In other words, this reform was not a temporary reform measure, you must keep changing forever as the business environment changes. By May 2006, a weekly "business improvement reform" meeting had been opened 950 times, and already lasted for 20 years in Tokyo headquarters' office once a week on Tuesdays (Henmi 2007 p.11).

"Business improvement reform" attempts to achieve "going thoroughly into the details". Also with "eliminating unsold goods", "hypotheses verification", "transferring power to the work field", all of these reforms contributed to the construction of the long-term organizational capacity-building business competitiveness of ***Ito-Yokado***.

3. Overseas development process and operational practice in China

3.1 Situation of local expansion in China

At the end of December 2007, ***S & i*** had three subsidiary companies in Beijing, one in Chengdu, detailed as 10 GMS (7 stores in Beijing, 3 stores in Chengdu), 2 FSM (Foods Super Market), and 55 CVS (Convenience Store)[8].

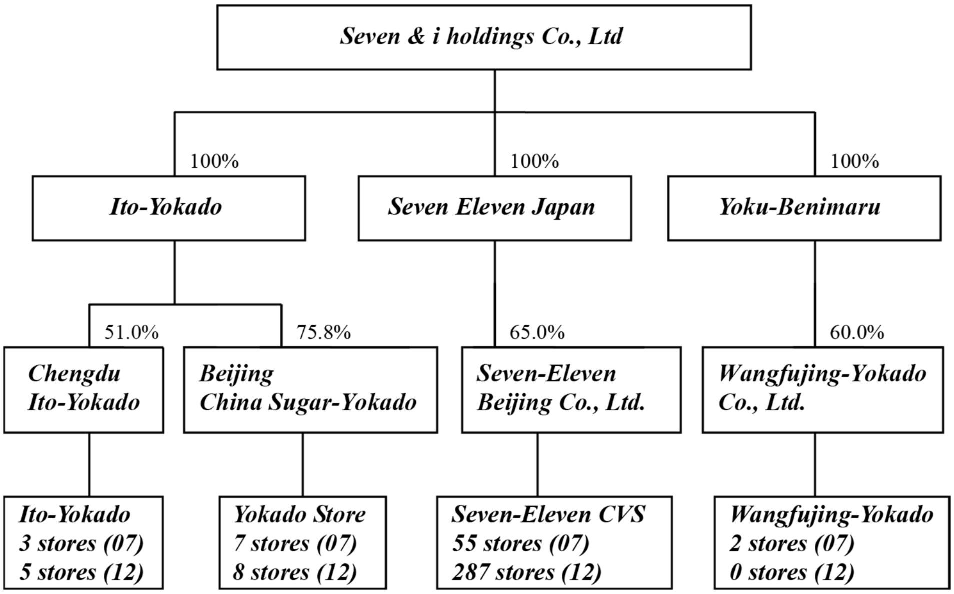
Now in Beijing, there are three joint ventures. The first one is ***Beijing China Sugar-Yokado Commercial Co., Ltd.*** with ***Ito-Yokado*** as the core company to expand its business. ***Ito-Yokado*** obtained permission from the State Council of China in 1996; it was the first qualified foreign retailing company to establish a nationwide chain store in China. Later, the joint venture was approved by the Foreign Economic and Trade Cooperation Ministry of China in 1997. While in 1997, ***Ito-Yokado*** held 36.75 percent stock share in the capital structure as the second biggest shareholder, and later it raised the stake share to 51.75 percent, 75.75 percent by April 2007, to guarantee the leading power of operation in the joint venture. In addition, ***Itochu Commercial Co., Ltd.*** (***Itochu*** also used below) continued to be a long-term business partner holding 12.25 percent.

The second joint venture, ***Seven-Eleven Beijing Co., Ltd.***, was established in Beijing in January 2004. The registered capital was 35 million U.S. dollars.

The third joint venture, ***Wangfujing-Yokado Co., Ltd.*** was established in Beijing in November 2004.

Table 3 shows the organization chart of local ***S & i*** in China at the end of 2007.

TABLE 3. Local Organization Chart of *S & i* in China (at the end of 2007)



Source: Based on ***Seven & i*** Holdings Corporate Outline 2007, Quarterly Reports, and newspaper reports. The number of stores in 2008 is expected.

3.2 History of abroad development

Ito-Yokado could not have expanded to China so smoothly if it had not affiliated with ***Itochu***, which had an extensive network with the Chinese government as well as the local Beijing and Chengdu city government.

Itochu, the second largest Japanese general trading company, acquired approval for the resumption of trade between Japan and China as early as 1972. As the first Japanese major trading company, it opened its first office in Beijing in 1979. Later, followed by Shanghai, Guangzhou, Dalian, Tianjin, and Nanjing, it also opened an agent office in an inland city Chengdu, Sichuan Province in 1984. Based on a consistent emphases on the Chinese business of past and incumbent government leaders, the extensive network of relationships between the business leaders and the Chinese government, "professional of knowing China" was formed in the company and this enabled it to expand into many business areas in China. Under such a background, ***Fumiaki Fujino***, the former managing director of ***Itochu***, played an important role in the overseas development of ***Ito-Yokado***.

In 1993, ***Fumiaki Fujino*** was called by an old friend from the 1970s', Mr. ***Zhang Haoruo*** (former Governor of Sichuan Province), the Minister of Domestic Trade of China. The Chinese government, looking for development of the domestic retailing industry, wanted to introduce large famous foreign retailing companies into China, but only one company each from Japan and Europe. Although Itochu was invited at first, it recommended its largest trading partner ***Ito-Yokado*** (Japan's largest retailing company)[9]. With this close partnership, ***Fumitomo Suzuki***, the president of ***Ito-Yokado***, quickly decided to develop in China.

In 1996, as the first qualified nationwide foreign retailing company in China, ***Ito-Yokado*** was going to open its first store in Beijing, but under the local government's strong demand and cooperation from the inland city Chengdu, Chengdu ***Ito-Yokado*** Co., Ltd. was set up in December 1996, and prior to Beijing the first China store --- Chengdu ***Ito-Yokado*** Chunxi shop (also the first oversea store) was opened in downtown Chengdu in November 1997. Five months later, April 1998, the first store in Beijing was opened.

Table 4 shows basic information about the local Chinese joint venture companies of ***Ito-Yokado***.

TABLE 4. Basic Information of Local *Ito-Yokado* Joint Venture in China

	Beijing *China Sugar-Yokado* **Co., Ltd.**	**Chengdu** **Chengdu *Ito-Yokado* Co., Ltd.**
Established	Sep. 1997	Dec. 1996
Capital	65 Mil. USD	17.30Mil. USD
Shareholder Structure	***Ito-Yokado***: 51.75%, China Huafu Trade & Development Group Corp.: 36.00%, ***Itochu***: 12.25%	***Ito-Yokado***: 51.00%, China Huafu Trade & Development Group Corp.: 35.00%, ***Itochu***: 14.00%

Opened Stores (name) /time/ area	Shop 1 (Shilibao) Apr. 28 1998 14.7 thousand square meters	Shop 1 (Chunxi) Nov. 1997 15 thousand square meters
	Shop 2 (Yayunchun) Dec. 12 2001 21 thousand square meters	Shop 2 (shuangnan) Sep. 2003 24 thousand square meters
	Shop 3 (Fengtaibeilu) Dec. 5 2003 9 thousand square meters	Shop 3 (Jinghua) Dec. 22 2007 over 30 thousand square meters (largest of IY in China)
	Shop 4 (Daxing) Jan. 27 2005 12 thousand square meters	
	Shop 5 (Xizhimeng) Apr. 14 2005 18.7 thousand square meters	
	Shop 6 (Wangjing) Apr. 7 2006 16.6 thousand square meters	
	Shop 7 (Youanmeng) Sep. 28 2007 12 thousand square meters	
Prepared stores	Shop 8 (Beiyuan) 2008 19 thousand square meters Shop 9 (Wukesong) May 2008 13.2 thousand square meters Shop 10(Majiabao) Autumn 2008	Shop 4 Aug. 2008

Source: field interview of local subsidiaries in 2007 and HP of ***Ito-Yokado***.

At the first glance, the first overseas store should have been opened in Beijing, so why was the inland city of Chengdu, geographically inconvenient, and never at the top level of economic development, chosen?

The first reason, as mentioned earlier, was the network between the Minister of Domestic Trade (former Governor of Sichuan province) and ***Itochu***.

The second reason is the well-known "flying motorcycle episode," which explains the zeal and cooperation from the local Chengdu government. This episode indicates that there was great enthusiasm of Sichuan and Chengdu City government at that time for the establishment of the Chengdu ***Ito-Yokado***. In 1996, Chinese society was ruled by the so-called "Tiao tiao kuai kuai"--- bureaucratic division system. Under this system, the opening and operation of all companies must clear many approvals, signs and stamps from relevant government bureaucrats. However, this process was usually a prolonged and difficult task that could take many months or even years. To complete the remaining 19 government bureaucrats' documents and files required for the establishment of Chengdu ***Ito-Yokado*** in time, the instruction to "Sign and stamp all by flying motorcycle within today", was issued by the mayor to make it go smoothly. By that evening, all the documentation had been completed (***Weekly Toyo Economy*** Apr. 10, 2004).

The third important factor, as a metropolis with more than 4000 years of history from "Shang" and

"Zhou" dynasties, although most well-known for the "Three Kingdoms Period", Chengdu was famous for being a commercial city from ancient times. Although situated inland, in recent years, western companies and overseas Chinese merchants or companies (from Hong Kong, Taiwan, Malaysia etc.), and Japanese retailing companies continued developing into Chengdu aggressively.

As seen from Table 5, the ratio of “sum retail per district GDP” of Chengdu, was more than that of Beijing and of Shanghai. Also, the ratio of “consumptive expenditure per disposable income" of Chengdu is also 85 percent, exceeding that of Beijing and Shanghai.

TABLE 5. Comparison of Consumption Data of Beijing and Chengdu (at the end of 2005)

	Beijing			**Chengdu**		
Size of area（KM²）	16411			12390		
Population（urban）	15.38 m. (12.86m.)			10.82 m. (5.44 m.)		
District GDP（Trillion Yen）	10.3295 (3.8% of National GDP)			3.5565 (1.3% of National GDP, 32.1% of Sichuan's GDP)		
Average GDP（1,000 Yen）	680			320		
Sum Retails（Trillion Yen）	4.3545 (4.3% of National sum retail)			1.5090 (1.5% of National sum retail, 33.7% of Sichuan's)		
Sum Retail / district GDP	42.16% (Shanghai 32.48%）			42.43%		
Data and Percentage	**Sum (Yuan)**	**Per (%)**	**Growth (%)**	**Sum (Yuan)**	**Per (%)**	**Growth (%)**
Average disposable income	17653	100	13	11359	100	09
Average expenditure	13244	**75**	09	9642	**85**	07
1.Foods	4216	31.8	07	3400	35.3	07
2.Garments	1184	8.9	11	813	8.4	22
3.housing	1040	7.9	-2	938	9.7	02
4.Medical & Insurance	1296	9.8	10	602	6.2	03
5.Traffic & Communication	1944	14.7	24	1877	19.5	04
6.Amusement, Education & Culture	2187	16.5	03	1228	12.7	14
7.Family facilities & Services	852	6.4	03	462	4.8	-2
8.Others	527	4.0	14	323	3.4	19

Source: China Statistical Bureau, Beijing Statistics Bureau, Chengdu Statistics Bureau, Shanghai Statistics Bureau in 2005.

The following Tables 6~8 show comparative store sales and represent the excellent management practice of ***Ito-Yokado***.

First, Table 6 compares the average store sales of ***Ito-Yokado*** both in China and Japan in 2005 and 2006.

TABLE 6. Average Single-store Sales of *Ito-Yokado* (Unit: one hundred million yen)

Fiscal year	Company	Chengdu	Beijing	Aver. In China	Aver. In Japan
2005	**GMS（Ito-Yokado）**	78.0	41.0	51.6	82.0
	Convenience Store	/	0.27	0.27	2.21
	Foods Super Market	/	4.50	4.50	22.4
2006	**GMS（Ito-Yokado）**	**98.0**	44.2	57.6	**85.5**
	Convenience Store	/	0.38	0.38	2.16
	Foods Super Market	/	14.0	14.0	21.7
2012	**GMS（Ito-Yokado）**	**107.0**	34.9	62.6	**74.9**
	Convenience Store	0.22	0.56	0.46	2.28

Source: Based on ***Seven & i*** Holdings corporate outline 2006 and 2007, 2013. When calculating the average store sales in Japan, ***Seven-Eleven Japan*** is calculated for convenience store, ***York-Benimaru*** and ***York-Mart*** is calculated for foods super market.

As seen from the above table, in 2005, two stores in Chengdu accomplished total sales of 156 hundred million yen, or an average of 78 hundred million yen, almost the same as the average store sales in Japan (82.6 hundred million yen = 14,705 hundred million yen / 178 shops). And in 2006, average store sales of Chengdu ***Ito-Yokado*** were 98 hundred million yen, exceeding the average of all ***Ito Yokado*** stores in Japan.

Next, Table 7 shows foreign retail chain sales in China in 2005 and 2006.

TABLE 7. Foreign Retail Chain Sales in China (unit: one hundred million yen)

Rank	Company	Single-store sales		Total Stores		Total sales		Total Rank	
		‘06	**‘05**	**‘06**	**‘05**	**‘06**	**‘05**	**‘06**	**‘05**
/	**Chengdu Ito-Yokado（J）**	**125.52**	**78.00**	**2**	**2**	**251**	**156**	/	/
1	**Ito-Yokado (Japan)**	**73.20**	**66.44**	**8**	**7**	**586**	**465**	**15**	**15**
2	**IKEA（Sweden）**	70.00	/	4	/	280	/	17	/
3	**Auchan（France）**	62.00	57.69	16	13	992	750	11	12
4	**Jusco（Japan）**	**46.83**	**28.65**	**11**	**10**	**515**	**286**	**16**	**16**
5	**Rt-mart（Taiwan）**	46.08	39.26	68	60	3134	2335	3	2
6	**Metro（Germany）**	45.41	41.93	33	27	1499	1118	8	10

7	**Carrefour（France）**	**41.77**	**37.37**	**95**	**70**	**3968**	**2615**	**2**	**1**
8	**Wal-Mart（USA）**	33.87	26.56	71	56	2405	1490	5	8
9	**Tesco（UK）**	31.66	30.47	47	39	1488	1188	9	9
10	**Lotus（Thailand）**	28.80	24.74	75	61	2160	1509	7	7
11	**Parkson（Malaysia）**	24.67	52.59	40	36	976	1650	12	6
12	**Trust-MART（Taiwan）**	22.18	18.86	101	105	2240	1980	6	4
13	**Parknshop（HongKong）**	17.12	15.38	44	37	753	569	13	14
14	**B&Q（UK）**	17.10	16.13	58	48	992	774	10	11
15	**China Resouces (HongKong)**	2.69	3.54	2250	509	6048	1803	1	5
16	**Yum! Brands Inc. (HongKong)**	1.30	1.17	2095	1700	2715	1995	4	3
17	**McDonald（USA）**	1.02	0.89	700	750	717	668	14	13
18	**Dicos（USA）**	0.40	0.38	620	545	248	204	18	17
Sum	/	31.45	27.34	6336	4078	31716	21549	/	/

Source: based on interviews and documents provided by Ito-Yokado in 2006 and 2007. Some of the data in TABLE 7 are not the same as that in TABLE 6 because of the problem of different sources.

As seen in Table 7, ***Ito-Yokado*** focused on average store's sales rather than simply expanding the number of stores. Among 18 major foreign retail chain stores, although the total sales of ***Ito-Yokado*** located 15th in two consecutive years, average store sales were clearly top in both years. "It means nothing to only increase the number of stores-because it's simple if we want to do it. An increase in number with low quality is miserable. We are not interested in expanding the number of stores unilaterally. Expanding without quality will inevitably lead to us being knocked out of the market", said Chairman ***Suzuki*** (NHK DVD 2005: ***Toshifumi Suzuki***).

For comparison, Table 8 summarizes the sales of local Chinese retail chain stores in Fiscal 2005.

TABLE 8. Sales of local China retail chain stores (the end of 2005, one hundred million yen)

Rank	Company	Single-store Sales	Total Stores	Total Sales	Total Rank
1	**Beijing Wangfujing Department**	**69.30**	**14**	**971**	**22**
2	**Beijing Unicom Group Holdings**	42.15	74	3120	6
3	**Dalian Trading Group**	34.74	130	4518	5
4	**Eastern Homes**	33.45	27	904	24
5	**Hefei Department Group**	29.10	54	1575	14
6	**Wuhan Wushang Group**	28.80	42	1211	18

7	**Renrenle Trading Group**	25.20	40	1009	20
8	**Xinyijia Super market**	22.35	79	1770	13
9	**Beijing Guo Mei Appliance**	17.54	426	7476	2
10	**Jiashijie Chain Group**	16.86	82	1383	16
11	**Shenzhen Causeway Bay Depart.**	16.79	56	940	23
12	**Su Ning Appliance Group**	16.41	363	5958	3
13	**Hong Tu San Bao High Tec.**	13.40	75	1005	21
14	**Chongqing Trading Group**	11.82	191	2258	10
15	**Shanghai Yong Le Appliance**	11.43	199	2275	9
16	**Jiangsu Wu Xing Appliance**	11.36	193	2192	11
17	**Shangdong SanLian Group**	7.22	274	1980	12
18	**Beijing Jingkelong Trading Group**	5.30	156	827	25
19	**Wumei Holdings**	4.34	659	2861	7
20	**Wuhan Zhongbai Group**	3.11	385	1199	19
21	**Jiangsu Wenfeng Dashijie Chain**	2.45	612	1500	15
22	**China Resources Wanjia**	2.19	2133	4695	4
23	**Liqun Group**	1.91	643	1234	17
24	**Bailian Group**	1.70	6345	10811	1
25	**Nonggongshang Supermarket Group**	1.67	1572	2632	8

Source: Based on interviews and documents provided by ***Ito-Yokado*** in 2006.

As seen from the above Table 8, average store sales of ***Ito-Yokado*** exceeded those of the local Chinese retail chain stores except Wangfujing Department Store only. Here, one interesting thing was that, Beijing Wangfujing Department Store, the joint venture partner of ***S & i*** also had higher profitability of average store sales than others[10].

4. Problems and solutions of Japanese management's localization in China

Most of the local subsidiaries of ***Ito-Yokado*** in China are undergoing a business boom. But ***Ito-Yokado*** experienced difficulties in introducing Japanese management to the local situation in China. The main issues can be categorized as follows.

Product merchandising

In 2010, more than 600 suppliers attended the briefing session of Chengdu ***Ito-Yokado***, in 2011 the number reached 1,100. But in the beginning of 1997, although the manager of the Department of Housing, ***Saegusa*** (now general executive officer of ***Ito-Yokado China***) distributed invitation letters to 500 Chengdu suppliers, only 70 of them attended the meeting, and most of them were local Japanese companies. At that time, despite its top retailing company position in Japan, ***Ito-Yokado*** was an ordinary unknown foreign company in China. It was even regarded as similar to a drugstore. According to Executive Manager ***Hanawa*** of ***Seven & i,*** "At first, nobody knew us. When we gave our company brochures to our suppliers or customers, they always replied ironically: You seem to make such a nice brochure but like a trickster does" (Nikkei Business, May 14, 2001).

The buyers of ***Ito-Yokado*** also experienced many difficulties in relationship-building with the suppliers when conducting negotiations. "Our company has such a large scale and well established reputation in Japan, you really need not worry about the payment", the buyers said. "We know we may take back the unsold goods if ***Ito-Yokado*** could not sell them. But please give us cash first in three months", replied the suppliers (Nikkei Marketing Newspaper, June 9, 1998). In the early 1990s, China just had stopped the rationing system, under such a seller's market, consumers or buyers had to pay the whole price in cash simultaneously or in advance. There was no credit payment or delayed payment. Furthermore, suppliers who were unfamiliar with the so-called Japanese-style payment system of paying at the end of every month, could not be persuaded even after they were explained many times: "It’s only us retailing companies who take the risk to sell". "It is similar to the situation around the 1970s’ when we first started our ***Ito-Yokado*** business in Japan", said ***Hanawa***. But on the next store opening day, when the suppliers saw the prosperity of the business, they said: "Alright, you do not have to pay in cash", and Chengdu ***Ito-Yokado*** was finally trusted.

According to my six interviews with ***Seven & i***, now Chengdu ***Ito-Yokado*** deals with over 5,500 local companies, almost 100% of the clothing, and about 95% of food and fruit are made or grown in China. Some Japanese home appliance brands are also manufactured in China.

Single-item commodity management system

When ***Ito-Yokado*** started development overseas in China in the 1990s’, there was no bar-code management system, and product management was extremely weak at that time. The government indicated that "All products or commodities need to use a bar-code", but there was neither sign of improvement, nor any uniform nationwide rule.

In order to improve the situation, ***Ito-Yokado*** took the following approaches.

Firstly, to make the best use of the competitiveness of single-item commodity management like that applied in Japan, every commodity item was registered and the statistical data was collected by every one hour, and distributed to every employee to make a single-item commodity analysis chart or graph. In this way, the details of slow-sold items and unsold- items were found and so that they could be eliminated. Constant fine-adjustment of this single-item commodity management system was gradually established.

Secondly, managers in charge of every specific business division, such as the manager of clothing division, food division, or home-related division, were given the authority to determine the inventory level, rough profit, price discount, and so forth. They adjusted the merchandising and store layout based on various sales data or information. By introducing the "teamwork merchandising system", the pre-existing system as "purchasing division is responsible for buying and marketing division is responsible for selling", was revised to the system of "sell your item commodities by yourself ", which increased the responsibilities and incentives of purchasing and marketing. Furthermore, sales data, business ideas, various trial and error information, were streamed from the headquarters every week. Strategy evaluation meetings were held frequently to improve the business development of the whole company.

Thirdly, a performance-based evaluation and pay system was put into practice for the middle management. Simultaneously, a strict management supervision system was also executed for employees. For example, not just the service-for-customer training, but also coordination skills and knowledge, and detailed descriptions about commodities were requested.

Store Management

Firstly, the location strategy of ***Ito-Yokado*** was completely based on the so-called "distinctive stores respectively" way, which was very different from the traditional "completely the same store" way in the 1970s' Planned Economy in China.

For example, in Chengdu, the first store was located in the busy downtown area, the second one was located in the newly population concentrated area second Ring Road, and the third one in a large Shopping Center (SC) or Shopping Mall (SM) pattern was located in the Chendu HOPSCA[11].

The structure of the item composition is as follows: 26% for food, 44% for clothing, 30% for housing and others (interview data in December 2007). A high proportion of clothing is a distinctive feature of ***Ito-Yokado***.

The store layout and display were often changed for a new-look and updated. This gave customers a sense of freshness and was essential for acquiring stable repeater customers.

Employee training

Service-for-customer training of employees in China was started from scratch. Hospitality as a business manner to satisfy customers is one of the competitive strength of Japanese retailing companies, including ***Ito-Yokado***.

Chinese service industry was known for being "Unfriendly, cold, apathetic." Because of the long-term planned economy system, the employees had no awareness of hospitality. A bad attitude was often experienced by foreigners. To change this bad manner, employees were reminded that "It's our customers who pay us!" Prohibition of unusual dressing was also strictly implemented to reinforce workplace discipline. For this, bowing and saying welcome properly to the customers was introduced to the training. There were many employees who could not do it perfectly and even resigned from their job (Japan-China Economic Cooperation Journal, February 2005).

The following are some examples of employee training.

Case one: "Neighborhood old ladies are more important than beautiful young ladies who are faraway."

This means: Be kind to old lady customers who buy in small amounts every day, not only the beautiful customers who buy in large quantities but visit only once a month or so.

Case two: "Education of three senses---impress, inspire, thank"

This means: Let the customers feel and ***impressed*** by the commodities, the store layout and display, as well as the advice on life-styles from ***Ito-Yokado***. Provide ***inspiring*** service to the customers. ***Thank*** the customers with sincere gratitude.

Case three: "Trotted hospitality"

This means: To save customers' time, when customers are waiting for help or employees are asked by customers, employees must provide a quick hospitality service.

Case four: "Pay attention to customer complaints"

This means: For example, in summer, thinking from the customer perspective, Chengdu ***Ito-Yokado*** started a free service of running an air conditioner shuttle bus.

Case five: "Three meters and five meters"

This means: Employees must pay attention to the customer within five meters, and smile and greet within three meters. Such practice was first put forward by ***Sam Walton***, founder of ***Wal-Mart,*** to establish a customer-oriented corporate culture. However, while ***Wal-Mart*** tried to practice it thoroughly in China, as the number of employees in the average stores of ***Wal-Mart*** in China was much less than that of ***Ito-Yokado***, it was not practiced well.

Case six: "100 - 1 = 0"

This means: Bad service by only one employee would destroy the efforts of 100 employees who gave good service.

Case seven: "Make 10 customers your friends --- emphasizing the face"

Let me explain this employee training.

Nobody places as much importance on ***face*** as the Chinese do. Regarding this, ***Saegusa***, the general executive officer of Chengdu ***Ito-Yokado***, instigated a special customer service by which every employee should remember the names of ten customers. You can easily calculate that, a shop with 1,000 employees would make as many as 10,000 customer friends. Properly remember the name of the customer, greet them in a friendly manner at the store, and this would make the customer feel warm and welcome. The reputation that "The clerks here are very friendly" would spread across all stores and customers, and help improve corporate image towards a reliable and good enterprise building.

5. Theoretical background and management style to settle in China and Japan

In April 1998, **Hanawa**, a former general executive officer of ***Ito-Yokado*** China who was also in charge of ***Ito-Yokado*** stores opened abroad in Beijing and Chengdu, said: "It's the consumers themselves in China who decide whether to go shopping at western supermarkets or at ***Ito-Yokado***. We want to make sure in China that our management know-how accumulated in Japan is internationally accepted." (Nikkei Business, June 15, 1998)

Indeed, when going overseas, it is necessary to follow the Japanese business style or Japanese-style conscientious manufacturing system. Among them, management philosophy or corporate culture such as "going thoroughly into the details" was not easily visible. Japan's success could be concluded to as based on sticking to the product quality and service honestly; this should not be changed anyway in any way (Kagono 2003). Furthermore, the cooperation between Japanese companies is not by agreement only, but is often based on a sort of unwritten or customary law, the implicit rules. This seems to be a competitive strength of traditional Japanese industries (Kagono 2006).

Japan is well known for the longevity of its population, but it is also a country of long-lived companies. ***Kongo Builder***, a company engaged in building temples located in Tennoji Osaka, is thought to be the oldest company in Japan, and already has 1,400 years of history since its founding. There are many other long-lived Japanese companies such as Nishiyama Onsen keiunkan (hot spring hotel founded 1,299 years ago), Koman (a hot spring hotel founded 1,287 years ago), and Hoshi (a hot spring hotel founded 1,286 years ago) (Kagono 2006, Funabashi 2002). According to TEIKOKU DATABANK (http://www.tdb.co.jp/english/index.html.), Japan ranked as Number 1 with 3,886 long-lived companies in Japan that were founded more than 200 years ago, compared to 1,850 long-lived companies in German, and 467 long-lived companies in England.

This "going thoroughly into the details" and "simple and honest" business culture is embedded in basic Japanese rules. When these Japanese companies entered China, they were able to do business based on trust and honesty.

Just as "The Japanese live to work, but we work to live" (White and Trevor 1983), the Japanese universally have characteristics such as being hard-working, honest, and working silently (Yoshihara 1992). In Japanese culture, rather than working for economic incentives, the corporate philosophy of contributing more to society through working hard is established. In this case, it is very important to create ***trust***. As can be seen from the motto of ***S & i***, "trust" and "integrity" is taken very seriously[12]. And the company's mission statement is to: "respect the ethics of business, provide customers with valuable products and services, and create jobs and new wealth".

Implicit (tacit) knowledge

Hungarian philosopher ***Michael Polanyi*** in 1966 proposed the concept of "tacit knowledge" (Polanyi 1980 p.170). Based on experience and intuition, tacit knowledge is difficult to represent linguistically.

The opposite concept is "explicit knowledge". By the use of sentences, tables and manuals, we can change implicit knowledge into explicit knowledge.

In a typical Japanese company, unique corporate culture and organizational behavior rules are formed under long-term tacit or implicit knowledge shared among all employees. Compliance and inheritance of tacit knowledge is a competitive strength of Japanese companies. This tacit rule is flexible (negotiable), and not simply applied mechanically. Also, it is an important factor of ***trust*** among companies. The rights and obligations should be based on long-term shared rules and practices, commitment and cooperation. Anyone who breaks these rules will have various sanctions imposed on them by other companies. As already mentioned, these culture-supported rules and commitments contribute to the unique capability and competitiveness of most Japanese companies (Kagono 2007a).

However, in overseas Japanese companies, under the rapidly changing global conditions and practices, such as mergers and acquisitions, the assumption of such a tacit corporate culture also needs to change. Therefore, rather than "tacit knowledge" being transplanted over a long time, it is necessary to use charts, procedures and documents, to turn them into "explicit knowledge" more quickly.

This "explicit knowledge" is one of the purposes of ***knowledge management*** argued for by Nonaka and Takeuchi (1996). However, when attempting to convert tacit knowledge into explicit knowledge, it tends to be accompanied by a large amount of formalism of vague documents and representation, and explicit knowledge is not easily recognized. In this regard, a thorough examination of the details becomes extremely important.

For this, practice is important. Practice is the major force shaping human behavior. Once it becomes a habitual serious work attitude, workers may feel uncomfortable if they do not work hard. Once this practice is formed, even without strict monitoring, workers voluntarily work hard. Japanese companies are trying to make this "thoroughly examining the details" practice prevalent in Japan and Asia.

As regard to the balance between "adaptation to the local conditions completely" and "following the Japanese Business Style", there should be a compromise but the latter is a more fundamental rule[13]. Japanese companies do not tend to adapt to both ends of basic principles. ***Ito-Yokado*** has established its way of business and should strengthen its core competitiveness by sticking to its Japanese-style management system.

Conclusion

This paper analyzes the Japanese retailing company ***Ito-Yokado***, and its parent company ***Seven & i*** Holdings, about its overseas development and operation practices in China. Differing from the conventional view that only Japanese manufacturers have a global competitive advantage, this study provides evidence that the management system of the Japanese service industry is also highly competitive.

However, with Japanese diligence, honesty and reliable devotion to work, it is not easy to introduce and transplant the competitive strength of the Japanese service industry to overseas. Partly it is due to differences in local economic systems, corporate culture and customs, economic development level, etc. As well as adhering to the fundamental Japanese-style management thorough attention to the details, making improvement every day is the core advantage of the Japanese management system.

REFERENCES

Buzzell, D. (1968) Can You Standardize Multinational Marketing? *Harvard Business Review*, Nov.-Dec.: 102-113.

Funabashi, H. (2002) Persistent soul of a long-established store, *Nikkei Business*, January 7.

Hanawa, A. (2003) Distribution Modernization of China and Ito-Yokado's Business in China, 10th Textile and Fashion Industry meeting in Osaka, memo.

Hanawa, A. (2005) Open 10 stores before the Beijing Olympics, NIKKEI *NET China Business. Accessed* at http://www.nikkei.co.jp/china/interview/20050404cd844000_04.html.

Hanawa, A. (2006) State of Retailing in China, Conference memo at http://www.mof.go.jp/jouhou/kokkin/tyousa/1903chinakenkyuukai_10.pdf.

Henmi, T. (2007) Business improvement reform of Ito-Yokado --- its history and essence, MMRC *Discussion Paper Series*.

Japan Economic Newspaper (1998) Super-companies continued fumbling in China --- getting reputation on customer service, but price and management remaining challenges. June 5.

Kagono, T. (1997) *Restoration of Japanese Management*. PHP Institute.

Kagono, T. (2003) I will tell you that honest as a corporate culture is a strength of Japanese companies. *HRR Message*.

Kagono, T. (2006) The unwritten rules are the strength of traditional Japanese industries. *Japan Economic Research Center Bulletin*, October.

Kagono, T. (2007a) The strength of Japanese - style SCM working in the implicit rules. *President*, July 30.

Kagono, T. (2007b) It's time to root local area --- Learn management from global companies! ***Forbes***, April.

Kawabata, M. (2000) Overseas advance and strategy of retail industry: International location theory and realities, *New criticism Press*.

Levitt T. (1983) The Globalization of Marketing. *Harvard Business Review,* May-Jun.: 92-102.

Michael P. (2009) *The Tacit Dimension*. University of Chicago Press, Reissue Edition.

Misumi, N. (1987) *The meaning of work*. Yuhikaku Press.

NHK DVD (2005) The message --- Business men who changed Japan, Suzuki Toshifumi: ***Seven & i*** Holdings: Seven-Eleven Japan, Ito-Yokado, Nikkei BP Inc., October.

Nikkei Business (1998) Japanese companies shift in strategy change as early as the huge market saturated, the focus is "localization". June 15.

Nikkei Business (2000) Yokado, developing suburban SC in Beijing, to reveal details of multi-store expansion plan, and also considering for the motorization, May 21.

Nikkei Business (2006) Convenience Store, Run through the world: Can Seven-Eleven become the next Toyota? September 4.

Nikkei Business (2006) Interview with Mr. Suzuki Toshifumi: Localization in overseas. September 4.

Nikkei Computer (2006) Interview with Mr. Suzuki Toshihumi: Elaborate system is not needed. Top management must prevent extra production. May 29.

Nikkei Industry Newspaper (2005) Dig a well in Japan-China Friendship (former ***Itochu*** managing director ***Fujino Fumiaki***, statement on former work), November 15.

Ito-Yokado Corporate Social Responsibility CSR Report 2001-2007.

Nikkei Information Strategy (2006) Learned from Toyota's standards: Stress on customer perspectives, May.

Nikkei Information Strategy (2006) Make the clerk focus on the network: Create a good environment for selling department continuously. February.

Nikkei *Marketing Newspaper* (1991) Market barriers to success in China (1) business practices, the barrier to entry --- Japanese-style paranoia. June 9.

Nikkei Marketing Newspaper (1998) Market barriers to success in China (2) MD is very hard to refine --- regional differences in consumer images. June 11.

Nikkei Marketing Newspaper (1998) Market barriers to success in China (3) Activation of the human resource --- speed up layoffs. June 16.

Nikkei Marketing Newspaper (1998) Market barriers to success in China (4) Barriers to the deployment of convenience store ---underdeveloped institution and distribution systems. June 18.

Nikkei *Marketing Newspaper.* (1998) Market barriers to success in China (5) European and American companies, advancing one after another --- Stores which cannot stretch profit. June 23.

Nonaka, I. and Takeuchi, T. (1996) *Knowledge-creating company* (Translated by Umemoto Katsuhiro), Toyo Economy Sinpo Press.

Ogura, M. （2003） *Toyota and Ito Yokado: What Kaizen and business improvement aims for.* Toyo Economy Shinpo Press.

Oishi, Y. （1993） Specific measures of global marketing. *Journal of economics*, Saga University, Vol. 26 No. 3.

Seven & i Holdings Annual Reports and Intermediate Report 2005 and 2006.

Seven & i Holdings Corporate Outline 2006 and 2007.

Seven & i Holdings CSR Report 2005 and 2006.

Seven & i Holdings Quarterly Reports 2005 Vol.88~2007 Vol.95.

Shirogi, N. (2005) From the management scene of Japanese companies in China: Record of Chengdu Ito-Yokado's prosperity. *Japan-China Economic Cooperation Journal*, February.

Sorenson Z. & Wiechmann, U. (1975) How Multinationals View Marketing Standardization? *Harvard Business Review*, May-Jun.: 38-50.

Nikkei Business (2006) The distribution OS of Made in Japan is crossing international borders, September 4.

Nikkei Information Strategy (2006) Training versatile-ability employees: Chang the selling department convenient, don't make customers walk extra paces. April.

White M. and Trevor, M. (1983) *Under Japanese Management*. Heinemann Press.

Yahagi, T. (2003) *Retail Innovation in China and Asia*. Japan Newspaper Press.

Yahagi, T. (2005) The localization process of Ito-Yokado in China, *Management Sirin Journal*, Volume 41, No. 4: 71-88.

Yin, R. K. (1989) *Case Study Research, design, and methods*, Newbury Park, CA: Sage Publications.

Yoshihara, H. (1992) *International management of Japanese companies*. Dobunkan Press.

1 Another foreign retailing company permitted nationwide deployment in China was Metro, a Germany company.

2 According to the latest information from the annual reports and news releases of the three companies, there are 14 ***Ito-Yokado*** stores, 218 ***Carrefour*** stores, and 395 ***Wal-Mart*** stores respectively in China.

3 The intensity of competition and the industry-specific learning effect reduced these ratios briefly to 1.75 times than ***Carrefour***, 2.2 times than ***Wal-Mart***, and 1.56 times than ***Jusco***, but by the end of 2012, the difference of these ratios had increased to 2.77 times, 3.92 times, and 2.57 times respectively.

4 The local joint venture company, Chengdu ***Ito-Yokado*** Co., Ltd, stood in the top 100 tax-payment companies in the city for 5 consecutive years. In 2002, it was rated as an excellent company for labor-relations in Chengdu, an excellent company for employing the handicapped people in Sichuan. In 2003, first general manager ***Nobutaka Shiroki*** was selected as a "working model", and became the first foreign working model in Chengdu. In 2008, third general manager, ***Tomihiro Saegusa***, as the only foreigner, was selected as one of the 30 most important contributors for China's 30 years economic reform.

5 For example, Sorenson and Wiechmann (1975), based on empirical analysis of European and American multinationals in Europe, argued that in general, there was a very strong marketing orientation of "standardization". Levitt (1983), basing his research mainly on Japanese companies, argued that a common global strategy of successful companies in the world market, or "homogenization" was a historical trend. Oishi (1993) integrated "cost advantage" conducted from "standardization" or "homogenization" and local special "customer needs" into the concept defined as "composite balance". He argued that the purpose of "composite balance" is obtaining competitive advantage for multinational corporations.

6 In order to finish this comprehensive study, six field research and interview surveys were conducted over a period of four years in three stages. The first stage of investigation was from 2006 to 2007 to gain an overview (Sep. 15, 2006; Nov. 15, 2006; Nov. 7, 2007; Nov. 9, 2007). The second stage was on Dec. 17, 2007 to verify the details. And the

third stage was Dec. 4-6, 2010 to compare and confirm the information of competitors. This paper pays main attention to the first 10 years' (1997-2006) development of IY in China.

7 In Fiscal 2008, ***Seven & i*** ranked 14th, ***Aeon*** ranked 17th among the top 250 global retailers. ***Wal-Mart*** (USA), ***Carrefour*** (France), ***Metro*** (Germany), with ***Tesco*** (UK) leading.
http://www.stores.org/stores-magazine-january-2010/global-powers-retailing-top-250.

8 Due to the M&A of ***Mirenium Retailing*** as a wholly owned subsidiary in June 2006, two overseas department stores ***Sogo*** and ***Seibu*** in the city of Wuhan, China also belonged to ***S & i***. An interview in Dec. 2010 to with ***Mugikura***, the CEO of ***Ito-Yokado China***, found that there were 99 CVS, 8 GMS in Beijing, 4 GMS in Chengdu of ***S & i*** in China.

9 ***Nikkei Industry Newspaper***, November 15, 2005.

10 From first glance, Beijing Wangfujing Department Store (Group) had a higher level of average store sales than that of ***Ito-Yokado***, but the former is a department store, while the latter is a general merchandise store.

11 On April 26, 2006, ***Hanawa***, executive manager of ***Ito-Yokado*** and ***Saegusa***, general executive officer of Chengdu ***Ito-Yokado***, signed a business agreement with Dalian Wanda Group, a giant real estate development group in China, who decided to construct its 4th HOPSCA project in Chengdu. HOPSCA is a new business pattern that includes hotel, office, parking, shopping mall, convention and apartment. About half of its 400 thousand m^2 area, 180 thousand m^2 was aimed for commercial use, and Chengdu Ito-Yokado occupied 30,000 m^2. The previous three HOPSCA projects in China were located in Beijing, Shanghai, and Ningbo, and the retailing companies involved in those projects were ***Wal-Mart***, ***Carrefour*** and ***Parkson*** respectively.

12 ***Seven & i*** Holdings mission state: "We are trusted by the shareholders, a company in good faith. We are trusted by our customers, business partners, and communities. We are a company in good faith. We are also trusted by our employees, a company having good faith".

13 Although ***Hanawa***, former CEO of ***Ito-Yokado China*** said they would "Implement localization thoroughly in China but do not overdo it," (Nikkei Business, June 15, 1998), ***Ito-Yokado*** actually did mostly the same as they did in Japan.