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**The Case Study of Retail Buying  
Organization in Japanese Context**

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- Case Study on Local Retailer in Hokkaido -

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地方の小売企業の組織についてヒアリングを主に実施した。意図は大手小売業では本部（本社）購買が行われているがそこで行われた購買条件（数量、納期）が実際に地方・地区本部でも契約が履行されていない。それは企業によって格差はあるが、中央集権的な購買が実施されていない実例が存在する。そこで大手小売業の本部バイヤーへの調査だけでは本来の購買活動、組織と機能を解明できない可能性がある。そこで地方の小売企業への購買活動についての調査を実施した（対象企業：北雄ラッキー、ラルズ、マイカル北海道、セイコーマート）。結果、商品探索に専門化しているバイヤー業務、日常のルーティーンワークをこなしているバイヤー業務、さらに店舗へのアドバイスを通じ店舗情報収集し店舗と購買を結ぶ業務の3つに分かれる活動がある。このような購買組織と機能がでているかを確認した。しかしながら分業化した購買は行われていないケースが主であった。ただし、ヒアリングの中でこれらの分業化が必要であるとの認識があることが解明された。メーカーの営業の対応や商品の品ぞろいの多さから大手小売業と地方小売業では対応が異なることも予想される。

## 1 - Raluse Corporation

Raluse Corporation is the top local supermarket in Hokkaido. Recently, the firm has expanded its operations by opening stores in the Obihiro and the Nakasorachi regions. Using three key slogans, Raluse continues to propose the idea of a relaxed, comfortable lifestyle in the north of Japan. (Note: Hokkaido is known for having a lower cost of living and more land area.) The two slogans are "New Hokkaido Price" and "Evolution". The impact of these slogans is: to provide the freshest food in Hokkaido at the cheapest price, to throw off past practices and successes, and to evolve into a totally new business entity to better survive in an extremely competitive business environment. Raluse believes that the strongest stores are those that receive more support from its customers.

### 1.2 General Overview

Raluse Corporation was found on 28 October 1963. The current President/CEO is Mr. Kiyoshi Yokoyama. As of 31<sup>st</sup> August 1998, the Raluse retail chain had capital reserves of 3,256,280,000 JPY (approximately 3.26 billion), and, including partner employees, employed 3,652 people. Raluse's affiliated companies are: Doutou Raluse (Eastern Hokkaido) Corporation, Douhoku (Northern Hokkaido) Raluse Corporation, ELDY Corporation, Lifeport Corporation, and Iwai Corporation. Additionally, in Hokkaido, Raluse have 63 stores with names such as Raluse Mart, Raluse Store, Raluse Plaza, Flety, Bighouse, and Sun-Value.

Table 1 Performance of Raluse

	1996	1997	1998	1999	2000
SALES(1MILLION JPY)	61,517	67,367	72,805	81,203	84,559
PROFIT(1MILLION JPY)	1,589	2,198	2,767	2,949	3,410
EMPLOYEES	1,963	2,032	2,133	2,483	2,867

Source: Company Accounts

## **1.2 Buying System**

Raluse's food product department is divided into a fresh food group and a dry food group. In the fresh food group there are four buyers for vegetables and fruit, three buyers for seafood (fresh fish), one buyer for delicatessen, two buyers for meat, and one buyer each for non-food and snacks and confectionery. Assistant buyers are under the buyers. From a work standpoint everyone is equal and each buyer (including assistant buyers) has independent authority and is responsible for their own product category. Currently, most buyers have 5-8 years of experience; the most senior buyer has 13 years experience. The number of SKU (stock keeping units) a buyer is responsible varies by product area. Buyers in the fresh fish division are responsible for 1500-1800 SKU per year or 120 SKU per week. Buyers in the vegetable and fruit division are responsible for 2000 SKU per year, or 40 fruit SKU and 120 vegetables SKU per week.

## **2.3 Buyer's Duties**

At Raluse, buyers are involved in product related activities, which include business negotiations, buying, selling instruction, sales promotion, and quality control. For example, a buyer might arrange for a cooking advisor to be at store once or twice a week. All employees are trained on the job and none have received education regarding supervising and buying. The buyer examines both data and the store floor. To gain information that is not available from ePOS data, the buyer often visits stores. In this way, the buyer reduces the communication gap between headquarters and stores, enabling

Raluse to quickly grasp store circumstances. The buyer has equal responsibility for product buying and sales-counter management because consumer information gleaned from sales counters is used as feedback to make more accurate buying decisions.

Mr. Nakayama explained, "Buyers like to introduce (products) and do not like to cutback. Seeing their preferred products being sold is the allure of a buyer's work. The buyer's objective is to thoroughly inspect sales of purchased products. Moreover, it is necessary to maintain a system of product introduction and cutback".

#### **.1.4 Central buying**

Although, in the buyer's decision making, suggestions from headquarters are given priority and store managers also make suggestions to the product department, as a rule, buyers are totally responsible for purchasing. In the fresh food department, the actual probability that the store manager's suggestions will be implemented is only 2% to 3%. The buying procedure begins each week with business negotiations with suppliers that decide price, product form, and volume. Suppliers are chosen on both a weekly and monthly basis. The supplier guarantees product quality and price at this stage. Next, the order book is created. The order book is delivered to each store manager. In accordance to the monthly product strategy, products that have been chosen are noted. If a store manager orders a product and it is available in inventory, shipment can be made at anytime. For instance, as a summer product campaign, the order book might contain items used in August, such as BBQ related food, enabling store managers to choose seasonal merchandise. Buyers check order amounts made by store managers and can arbitrarily reduce or increase amounts.

For instance, an order was placed the day before when the forecast was for sunny weather; however, the next day it rains, and the buyer is able to decrease the order to 80%. This sort of adjustment is rare, and ordering from each store is normally accepted as placed.

In regard to rebuying, supplier changes are not normally made unless a processing mistake has occurred. After doing business with a supplier for a time, it becomes apparent if they are a merit or demerit to Raluse. When a supplier that always delivers high quality merchandise makes a shipment of inferior goods, Raluse does not immediately cut ties with them, but rather takes measures to notify the supplier of the problem. Raluse asks that the supplier find the cause of the problem and present product samples before the next business negotiation. As Raluse is dealing with a lot of potential suppliers, processing mistakes often result in the changing of suppliers.

### **1.5 Product Cutbacks**

Some products are removed at the end of a season but not in the middle of a season. Products that result in sales of less than 300,000 JPY are eliminated, but products that fair well with at least sales of 300,000 JPY are continued. Raluse handles only higher ranked sales items; therefore, it does not offer items that result in near zero sales. (In Ito Yokado's case, products that have zero sales for a period of 3-4 weeks are eliminated even in season). In Raluse's general food department, one product is cut if another product is added. This is due to a limitation in the number of products allowed by the computer system's master table.

## **1.6 Product Returns**

Raluse does not return merchandise (unsold product) because it feels that this practice erodes supplier confidence. However, Raluse returns products that are a different size than ordered, or if it receives inferior quality goods, such as fish that are split open. If a mistake is made on Raluse's part and an overage of product results, an effort is made to sell the merchandise. If the merchandise cannot be sold, Raluse takes responsibility and ultimately this becomes the buyer's error. In the case of fresh food, payment is made at the market 3 days after procurement; it is assumed that all fresh food is sold. Fresh food is never returned.

## **1.7 Product Assortment and Planogram**

Average profitability on each product is: vegetable and fruit 18%, seafood 25%, meat 25%, delicatessen 38% (component ratio 56% of all products). Delicatessen has a high profit compared to its component ratio. Purchase ratios are vegetable 4%, fruit 0.3%, seafood 0.8%, meat 0.7%, and spices 0.02%. Daily products that have a high purchase frequency are the core items. Sales ratios are fresh food 41.2%, general food (rice, tobacco) 46.8%, and clothing 11%. The assumption is that vegetable and fruit brings in customers and profits are made from seafood and meat.

Raluse classifies its product assortment in terms of price using ABC analysis and determines its component ratio weekly. Raluse gives precedence to and places from ranked items, however it may replace B graded items with C items, which have more originality. The buyers' ability to gather information also plays an important role in product assortment. For example, if a buyer gets wind of information about rising carrot prices



in April, he/she may try to purchase carrots cheaply from Australia and offer them at regular prices.

Raluse's headquarters issues a guide for store Planograms, but recently, it has noticed that some stores have become less observant. Most follow the Planogram for merchandise like produce or meat, the sale of which can be easily predicted. However, which seafood is selling can quickly change; and each store has different cycles so standard layout needs to be reviewed.

### **1.8 Product Nurturing and Business Direction**

Raluse is not strong in product nurturing due to the lack of an available budget. Until 1989, Raluse only carried products with high-predicted sales. Even though a product was considered to have merit, if it did not produce results, it was not considered good business. This strategy was the key to Raluse's success. However, Raluse now sees the necessity for product nurturing. For example, due to the boom in Italian cooking, it is apparent that the change in consumer needs will result in olive oil having the greatest growth among general products. In response, Raluse is experimenting with switching to suppliers that deliver directly from production areas and by paying attention to ingredients used by family restaurants, such as chicory and paprika. In addition, a Raluse department head called on employees to adopt a slogan of "One Grade Up" in an effort to move a half-step closer towards product nurturing; however, due to lack of a clearer explanation, this has met with difficulty.

Raluse's future business direction aims to solve the problem of how to skip intermediaries and switch to direct delivery of greengrocery from producers. Of Raluse's

suppliers, 55% are located in the city of Sapporo and the remainder (42%-45%) are located outside of Sapporo in areas like Asahikawa and Otaru; Raluse plans to increase its percentage of suppliers outside of Sapporo. Furthermore, Raluse is considering the possibility of collaborating with advanced farmer co-ops. Other efforts include the thorough management of product quality to shrink product losses to 3% of produce, 4% of meat, and 5% of seafood.

### **.1.9 Information**

Even though Raluse is rated as a top company in Hokkaido, the company lacks information regarding new, processed, and beverage products. Major retailers like Ito Yokado, Daiei, and Seiyu acquire product information three months in advance. New products do not reach regional retailers like Raluse until after being sold by major retailers; product amounts are also limited. Raluse belongs to the CGC group (a cooperative buying organization). Through this organization Raluse not only obtains products inexpensively, but also receives information about current popular sales items throughout Japan (Hokkaido to Kyushu).

Every week, Raluse sends to its general managers internal management data of stores' sales, component ratio, last year's sales ratio, and last year's component ratio. General managers monitor purchasing results and evaluate buyers' job performances taking into account details such as events (product campaigns) and SKU.

## 2 Case Study 2 - Lucky Corporation

An interview was conducted with both chief buyers and the manager of the meat and fish department at Lucky Corporation headquarters.

### 2.1 General Overview

Lucky Corporation was founded in 1982 when the Yamanote Store (founded in 1962 as the Kiryu store in Yamanote, Sapporo-city) merged with Marusen (formed in 1958 in Bibai-city). After the merger, the company name was changed to Lucky Corporation. Centering on Speciality Super Markets, stores numbers have been expanded aggressively and affiliated companies have been established. The President / CEO is Mr. Yasuo Kiryu. The company has capital of 520.3 million JPY. The total number of full-time employees is 528 (376 men and 152 women). The total number of part-time employees is 2060. Lucky's sales in 2000 were 43,331 million JPY, (55% was generated from fresh food products) and these sales are increasing every year. Lucky sells mainly fresh food, general food, clothing, daily sundries, alcohol, and rice. It also owns a fast food chain; Lotteria. Lucky has 26 stores in Sapporo-city, one store each in Otaru, Chitose, Tomakomai, Bohoro, Engaru, Kuriyama, and 4 Lotteria restaurants making a total of 36. Lucky's affiliated companies are Corporation Sapporo pre-prepared food Center, Lucky Food Corporation, and Corporation Apple.

Table 2 Performance of Lucky

	1998	1999	2000
Sales(1 million JPY)	39,245	43,214	43,331

Profit(1 million JPY)	230	240	306
Employees	522	525	528

Source: Company Accounts

## 2.2 Strategy forwards buying

In an effort to provide quality products to its customer's tables everyday, Lucky works directly with regional growers and procures its products with great care. To reduce distribution costs and maintain product freshness and quality, Lucky has established a pre-prepared food centre, a refrigeration centre, and a delivery centre. Lucky attaches great importance to regional stores that have direct contact with customers and strives to offer regionally customized sales and services.

## 2.3 Buyers' Organizational Structure

Buyers are assigned only to headquarters and not to each store. In each department, there is more than one buyer. Buying job positions are (from the top) chief buyer, buyer, assistant buyer and buying trainee. The fresh food department has fifteen buyers: four for vegetables and fruit, two for meat, four for seafood, two for delicatessen, one for snacks and bakery, and two for pre-prepared food. The number of SKU's each buyer is in charge of varies and is 320-330 for example for seafood, and 380 for meat (120 of which are processed products). The quantity purchased per year is 4.5 billion JPY for the seafood department and 3.8 billion JPY for the meat department. Generally speaking, buyers are not required to have specialist experience and many rotate between departments every eighteen months. Considering the fluctuations of market prices and information, Lucky should assign buyers to departments for a longer period of time. However, the longer the experience of

a buyer, the more likely that his/her thinking will become inflexible and his/her opinions biased.

At Lucky, a buyer's duties include not only the buying of goods, but also the roles of supervisor and distributor. Buyers say their jobs are difficult but worth doing because they receive direct feedback from the sales of products that they have chosen. Lucky's method of buying differs from that of other companies. The firm creates "product specifications and buying standards" and headquarters only is buying and merchandising based on this standard. Some stores in remote areas like Bihoro have different product assortments that they buy themselves, but these products are chosen according to standards set by headquarters.

#### **2.4 Product Policy**

Lucky has four ways of looking at products in determining their product strategies: "fast-moving-consumer-goods", "Want to sell goods", "product assortment goods", and "nurtured goods". "Fast-moving-consumer-goods" have high sales; "STARS. "Want to sell goods " are products that generate high profits when sold. "Product assortment goods" are products that improve a store's image. "Nurtured goods" are new products that are not selling well yet. Buyers tend to favour nurtured products' because they hope to sell them or because they are expected to sell well shortly. The stocking ratio of these main three product type is approximately "fast-moving-consumer-goods": 70%, "Want to sell goods":25%, "product assortment goods":5% with nurtured goods occupying little space.

Lucky has "product assortment standards" which set stocking standards. Buyers decide what goods to buy and stock

by considering the ratios of different product types. Other things that are considered are last year's or last month's sales data, events in stores, and clearance sales information.

## **2.5 Product Delisting**

Product delisting usually take place when a new product is acquired rather than when a slow-moving is eliminated. Attributes of delisted products can be broadly categorised into two. One is that products such as groceries and clothing are eliminated because of the supplier's inability to supply. Second is that products such as processed products, beverages and snacks are cut according to "sales volume". Most major retailers have criteria for cutting products after several weeks of zero sales, but Lucky does not always have any such specific criteria. Lucky evaluates and predicts a product's value before delisting. They evaluate reason for poor sales performance and try to improve the product accordingly. Lucky classifies factors creating poor sales into seven categories: product quality, poor display, too few facings, regional characteristics, wrong content amount, competitor action, and lack of advertisement by the supplier.

## **2.6 Own Brands**

Lucky has only five major own brand items, all of which are related to Mongolian mutton barbecue. Lucky's reason for this is that own brand items are difficult to create because the PL(Product Liability) law makes the retailer responsible while the manufacturers are responsible for any problems with their brands. A problem with own brand products are that compared to other brands they have a cheaper image so high prices

cannot be set and mark-ups are difficult. Moreover, during special sales, national brands are marked down and sell better than own brand due to their higher credibility.

## **2.7 Contact with Suppliers**

Lucky evaluates its potential suppliers through a comprehensive evaluation that considers "preliminary research", "the management policy of supplier", "future outlook", and "buyer opinion". Lucky penalizes suppliers that are "all talk" and do not honour promises or deliver on time. Building trust is important.

Currently, retailers have begun dealing directly with the manufacturer instead of going through wholesalers. However, to procure merchandise, Lucky consults with manufacturers and deals predominating with wholesalers. Lucky requests from wholesalers not only intermediary services, but also delivery, urgent responsiveness and a backup system.

Lucky shares ePOS data with and discloses information to its suppliers to facilitate supplier cooperation with merchandising. Buyers negotiate for fresh food in the public market. At least once a week, they also contact off-market distributors. Recently, manufacturers have allied themselves with producers (farmers) due to the significant fluctuation of market prices. Dealing directly with suppliers allows them to acquire fixed price conditions. In opposition to this trend, wholesalers are trying to promote their own brands. Co-op of Hokkaido SPF pork is a good example of this. In future, trading companies with sufficient capital will gain entry and off-market transactions will grow. The merit of not going through the market will be the stabilization in quality of products supplied. Currently, Lucky deals directly with the

'manufacturer' for 50% of fresh fish and 35% of its greengrocery.

### **3 Case Study 3 - SEIKO-MART Corporation**

SEIKO-MART executes a strategy that differentiates it from other convenience stores and it accounts for a large portion of the convenience store market in Hokkaido. Interviews were conducted with Mr. Matsumoto of the Planning and Public Relations Division and Mr. Iwai, the Vice-Director of the Product Department.

#### **3.1 Overview of SEIKO-MART Corporation**

SEIKO-MART was founded in June of 1974 by the current President/CEO, Mr. Nagamitsu Nishio. Currently, SEIKO-MART has capital of 420 million JPY and has 480 employees: 70% of employees are male and 30% are female. The average age of employees is remarkably low with a total average age of 31.3 years. Average male age is 33.6, and average female age is 26.5. Management is correspondingly young with the average age of a department head being 39.4 years. The company takes advantage of the energy and creative ability afforded by its young staff.

By January of 1998, SEIKO-MART had expanded its number of stores to a total of 1000, of which 696 are located in Hokkaido and 304 are on the main island of Honshu. Many are franchised. In Honshu, inroads have been made primarily in the prefectures of Ibaraki, Saitama, Kyoto, Shiga and Hyogo. Average yearly sales per store were 170 million JPY, and total sales for member stores in Hokkaido reached 117 billion JPY. Five other affiliated companies organically stimulate SEIKO-MART's



unique harmonious style of management. The five companies are: SEIKO-MART Fresh Foods Corporation, SEIKO-MART System Engineering Corporation, SEIKO-MART Seafood Products Corporation, SEIKO-MART Retail Service Corporation, and SEIKO-MART International Trading Company, LTD.

**Table 3 Performance of Seiko-mart**

	1998	1999	2000
Sales(1 million JPY)	5604	6001	6626
Profit(1 million JPY)	860	984	1234
Employees (at Franchiser )	236	287	285

SEIKO-MART's business policy of striving to construct a consolidated distribution group has resulted in an organizational structure that is capable of integrating and systemizing the functions of: product acquisition, manufacturing, processing, physical distributing, and gathering information and sales. This integrated system gives SEIKO-MART the ability to provide high quality products at low prices while responding quickly to economic changes, also leading to stabilized earning power. To fully exploit this advantage SEIKO-MART is putting considerable effort into independently planned own-brand (retail brand) products. In this respect, SEIKO-MART is markedly different from other convenience store chains; its management system is laid out from start to finish enabling it to bring products from development through to inspection. Unlike some private brands (double named brands that printed the manufacturer brand and the retailer brand) where the manufacturer's product label is merely changed and the product is put out for sale, SEIKO-MART's organizational structure equips it to discover and create its own products. The number of own-brand products has reached

approximately 200 items comprising 5% of sales proceeds and 10% of sales volume.

SEIKO-MART's in-house development does not end with merchandise; it also extends to the field of information. By acquiring vast amounts of product information, SEIKO-MART's affiliated company, SEIKO-MART System Engineering Corporation, takes a pivotal role in perceiving consumer needs quickly and accurately. The original network system developed for this purpose makes it possible for SEIKO-MART to respond flexibly and at low cost. The in-house development of a ePOS system is also a good example of this.

In addition, SEIKO-MART Fresh Foods Corporation effectively utilizes this information for physical distribution; it serves as the logistic base and is furnished with product management and delivery management systems. The computer system stores all work on backup files. This effectuates the optimisation of procurement and the streamlining of the delivery system leading to extensive cost reductions.

In this way, SEIKO-MART transcends the typical concept of the convenience store, by working diligently at product development and the collection of daily information in order to offer consumers high quality products at low prices. With its independent ability of development and information network, SEIKO-MART is less like a convenience store and more like a supermarket, fulfilling the needs of consumers who seek to buy high quality items at lower prices.

### **3.2 Relationships between Stores and Headquarters**

The headquarters has the role of providing guidance to

franchisees through supervisors who support store managers and help resolve store problems. Normally, ordering is left up to a store manager's discretion; however, SEIKO-MART requires that each store follow their store prototype, which is determined by headquarters and sets merchandise facing on shelf. In other words, store managers do not need to choose all the products. On new products, recommendations provided by headquarters are utilized by store managers to choose products that fit their store.

### **.3.3 Organizational Structure**

Seiko-mart's structure consists of the management & operations department; merchandise department, the planning and public relations division, and the general affairs department. The aforementioned supervisor is part of the management & operations department, which plays an important role in communicating company policy to store managers and providing advice related to management, sales campaigns and financing. Affiliate Seiko-mart Fresh Foods Corporation fulfils the task of distributor on physical distribution and is in charge of three important business areas: (1) production of pre-prepared foods, (2) product warehousing and delivery, and (3) acting as a payment agent. In Hokkaido, SEIKO-MART Fresh Foods Corporation currently has locations in Sapporo, Hakodate, Kushiro, Kitami, Obihiro, and Wakkanai. These offices are essential to the smooth operations of each region.

### **3.4 Buyers**

The buyers are part of the merchandise department, which is divided into two: the product division and the product

planning division. There are a total of nine buyers; five are located in the product division, and four are located in the product planning division. These nine buyers handle all buying without the help of assistant buyers. The product division is in charge of beverages, alcoholic beverages, tobacco, and miscellaneous goods for daily use, groceries and processed foods. The product planning division manages product development and is in charge of products such as packed lunches, pre-prepared foods, and SEIKO-MART's retail brands of milk, eggs and other perishable goods. However, the line between the two divisions is not clearly defined, and they are suitably reciprocal in function. In addition to buying, the buyer is involved with new product development and the cultivation of supply routes.

### **3.5 Product Delistings**

Store managers do not handle product delistings. Headquarters decides which products to cut and relays this information to each store. SEIKO-MART sends out a weekly video and an informational magazine to educate each store's part-time help about its products. Both contain information about products to be cut and introductions to new products. In this way, employees are able to learn beforehand about products to be taken off the display shelves and new products that will be introduced. Headquarters announces product delistings approximately one month in advance to allow stores to sell their remaining inventory. New products are constantly being introduced resulting in more product delistings, and in some cases, moderately popular merchandise is cut as well. Headquarters often receives complaints from store managers that too many new product introductions make it difficult to sell off delisting inventory.

Delisting criteria vary for each product, and generally, the bottom level of each product category is cut. Consequently, if a product is at the bottom of its category it can be cut even if it outsells the top product in another category. SEIKO-MART is quite aggressive in its delistings. For example, if three products were candidates for delistings, instead of choosing just one, it is more likely that all three products would be cut to allow the introduction of new products.

### **3.6 Product Strategy**

SEIKO-MART's roots were as a wholesaler of liquor. It differentiates itself from other convenience stores in regards to alcoholic beverages by having significantly more volume and product types. This product strategy is noteworthy because these products are sold at inexpensive prices. Since beer and liquor are sold at lower prices, profits are generated from perishable goods such as beverages, eggs, tofu, and milk; however, this does not mean that these products are sold at higher prices. Through their original management system, SEIKO-MART's own-brand (retail brands) of beverages and common perishable goods are brought from development to inspection making considerable cost reductions possible. Each SEIKO-MART convenience store has an average product assortment of 4,500 items, and sales of Seiko-mart's own-brand are emphasized. This own-brand is an important part of Seiko-mart's product strategy.

### **3.7 Own Brand Merchandise**

The conception and origin of Seiko-mart' own-brand comes from alcoholic beverages. The idea of selling pre-prepared food as snacks to go along with alcoholic beverages was the beginning of own-brand. SEIKO-MART Fresh Foods Corporation was created to process these products. Next, packaged lunches and breakfast sandwiches were introduced. To better target women's tastes, eggs, tofu and other perishable goods were added, resulting in the current variety of Seiko-mart's own-brand. SEIKO-MART's main concern for its own-brand is quality; and it is able to provide this to consumers by being particular about product ingredients. Moreover, through original product development, Seiko-mart warrants merit by being able to considerably reduce costs while still providing high quality merchandise.

To confidently offer merchandise to consumers, SEIKO-MART searches worldwide for its products. In the case of wine, SEIKO-MART sends people to France, Germany, and Italy, to inspect the fields, crops and production processes.

SEIKO-MART's retail brands account for 7% of store sales. In the beverage category, they serve as a pillar of support accounting for 30% of sales. Although Seiko-mart does not have any promotional products produced through joint projects with manufacturers, SEIKO-MART's puts significant effort into promoting its own-brand. In order to produce superior quality products, own brands are assessed by various departments such as, quality control, customer service, and design. SEIKO-MART plans to increase the number of own-brand products offered. It deals less with domestic manufacturers primarily working with foreign manufacturers.

SEIKO-MART cites three criteria in making its own-brand products: (1) whether the product will be possible to produce on line (feasibility), (2) whether the product has growth potential, (3) whether the product's quality and price will rise

by being produced in-house. By ensuring the desired quality of ingredients, only products that exceed these three criteria become Seiko-mart's own-brand merchandise. SEIKO-MART is able to continue to adhere to its principle of putting quality first because of its original management system of supporting products from development to inspection.

### **3.8 Merchandise**

Almost all of SEIKO-MART's buying contracts are for non-returnable merchandise; however, the return of merchandise from its distribution centre (before it reaches the store) is accepted. As a customer, SEIKO-MART is able to return products, but it does not operate on the basis of being able to return unsold goods. When new products are introduced, old merchandise is exchanged for the new product.

On the whole product prices in Japan have decreased since March of 1998. However, some businesses have chosen to keep prices steady resulting in price differences. In addition to price, differences in sales growth percentage are evident; businesses that have chosen to reduce prices show higher percentages of sales growth.

Compared to foreign products, Japanese products are more expensive due to the higher profit margins of domestic manufacturers. Manufacturers utilize this profit to continually create new products resulting in the more frequent replacement of new products in stores.

### 3.9 Product Development Strength and Information

As previously described, SEIKO-MART Corporation's buying activities and organizational structure focus on the development of own-brand (retail brands) by relying on its principle of putting quality first. Through its development capability and information network, SEIKO-MART transcends the convenience store image of simply selling various products by constantly striving to provide products that customer's truly want. Through its buying activities, SEIKO-MART has developed the process of searching for satisfactory products or creating them in-house. Through the pursuit of product quality, SEIKO-MART's organizational structure has resulting in the establishment of its affiliated companies. In short, SEIKO-MART's organizational structure allows it to quickly grasp consumer needs and to respond flexibly through the utilization of its information network and distribution systems.

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