

Comparative Analysis of Carrefour and Costco on Their Entry into the Japanese Market

I. Introduction

With improvements in transportation and communication technologies, volume of global interactions increased while virtual distance of the world shrunk, making the world an equal playing field in terms of economics (Friedman, 2007). It is no wonder that as globalization progressed, international companies rose to new heights (Heinecke, 2011). In other words, companies who seek to be successful in the current age must take advantage of globalization and work to be successful in not only their home markets but also in others (Choi & Mukoyama, 2009). To do this, one will find it useful to compare the case studies of Costco and Carrefour entering Japan since they were similar supermarket chains with similar strategies yet one succeeded and one failed.

According to Heinecke (2011), multinational companies have three options in trying to make a profit at a foreign market: adaptation, aggregation, and arbitrage. What gives many companies a hard time when entering a foreign market is adaption. It is especially a problem for Western companies to adapt to Japan since they are individualistic while the market is collectivist which will cause misunderstanding on both sides unless extensive research and training is done (Brislin, 2008). From comparing Costco and Carrefour who were very similar in time and industry, the reason why Costco succeeded and Carrefour failed can easily be attributed to the fact that

Costco was able to adapt its business policies and understand consumer demand correctly while Carrefour could not. This paper will discuss briefly on main elements blocking entry of foreign capital in the Japanese market and continue on to introduce how Carrefour and Costco entered Japan. It will then analyze three topics of their business to measure the two's scope of adaption.

II. Barriers Blocking Entry into the Japanese Market

Like any market, the Japanese market has its own barriers preventing foreign forces from stealing market shares that otherwise could be given to the homegrown companies (Choi & Mukoyama, 2009). Just carbon-copying the business and bringing it to Japan will end up in disastrous results like how the founders of Japan's Seven Eleven realized at their training in Seven Eleven Training Center in California (Tanaka, 2012). There are mainly the legal and cultural barriers that give foreign companies a hard time adjusting to Japan.

Law

Although legal barriers are a formidable repellent, they are rational systems in the sense that the problems can be solved by legal assistance or political lobbying. In debating legal market barriers, there are laws enacted specifically to prevent foreign capital and local regulations that eventually became structural barriers. The main law

concerning regulation on foreign capital comes from the Law Concerning Foreign Exchange and Trade (外為法) which requires investors to report its intent to invest to the Japanese government if its investment is to cover more than 10% of a corporation (Hirose, 2007). Also article 27 of this law allows the government to revoke an investment if it believes it would harm national security (Hongo, 2011). Alongside this law, there are articles attached to industry specific laws that limit or forbid foreign ownership of companies like airlines, broadcasting companies, and telecommunication companies (Hirose, 2007).

On the other hand, industry regulations that eventually became structural barriers are hard to identify just by the name. For example, labor laws in Japan reflect Japan's belief in social responsibility, though to foreign businessmen, it's yet another troublesome law making it difficult to cut labor costs when it's not needed ("4.8 Resignation," 2013). On a specific note, Japan has many tough health laws restricting carcinogens and other harmful substances due to a history of harmful products. These regulations, though, can be problematic since the level of regulation in Japan on certain substances are higher than that of other countries which made IKEA, the Swedish furniture manufacture, suffer with heavier restrictions on formaldehyde (Dahlvig, 2012). Laws in Japan are unique but correct legal advice is abundant, so most companies that at

least set foot on Japanese soil pass this barrier. Cultural problems, however, are not like this.

Culture

Many individuals find understanding Japanese culture, including its cultural meaning behind silence and its unique directness (Brislin, 2008), a difficult task which makes the task of understanding local taste and tailoring regional strategies a daunting mission. On the consumer side, companies are shocked to learn the high demands of the Japanese consumers. To the Japanese, it is how much quality can be gained from the same price rather than how low the price can go with service playing a big role in establishing its brand and getting loyal customers (Dahlvig, 2012). In essence, Japan has not been a market where the cheapest goods were the most popular goods (Yamakawa, 2005). Alongside high demands, consumers are quick to judge companies by their names, so fulfilling their stereotype is crucial for success. This can be a problem at first for foreign companies that get labeled wrong, but it can also be a benefit since the marketing is already almost done. IKEA, for example, is a general furniture store, but the Japanese consumers had an impression that they sold Swedish furniture. IKEA realized this trend quickly and shifted its marketing strategy to always include a Swedish image even though some products had no relation to its home country (Dahlvig,

2012).

On the supplier side, the Japanese distributors and suppliers have many unspoken rules and social etiquette which are typical to collective societies like Japan (Brislin, 2008). The Japanese distributor system is infamous for its solidarity. In the Japanese distributor system, the manufacturer, as a way to maintain its retail price, will designate distributors and sell its products at special wholesale prices or give rebates to them on the promise that distributors will maintain the retail price set by the manufacturer. The distributors will then sell those products to retailers at a higher wholesale price with the same promise of keeping the retail price at a certain standard. When there are belligerents that break the harmony of this process, distributors and manufacturers will be ready to enforce strong economic sanctions in the form of higher wholesale prices and segregation (Seo, 2001). Trust and loyalty plays a factor in each level of transaction where more positive means more discounts (Choi & Mukoyama, 2009). When dealing with commodities, it is critical not to anger the people in the system or potential foreign retailers would be faced with every Japanese distributor. This delicate issue of culture can only be understood and controlled by consulting with professionals on that matter. Unfortunately, though, advices by these professionals might not always be correct which characterizes the difficulty of culture.

III. The Case Examples

In this section, the paper will look at Carrefour and Costco's entry to the Japanese market. In a scientific method where comparisons must have as little variables as possible to figure out the reasons for certain phenomenon, it is imperative to compare examples that are as similar as possible when proving a point in business. These two examples are excellent in that both are multinational supermarket chains that entered the Japanese market roughly around the same period (Nemoto & Tamehiro, 2001) and had a similar retail strategy of selling cheap goods.

Carrefour

As the second largest consumer market, the Japanese market was always a very lucrative market for large-scale retailers if there were no strict laws regulating the opening of super-sized stores (Yamakawa, 2005). It was great news for Carrefour when they heard the news that Japan was discontinuing its Large-scale Retailer Act in the late 1990s (Seo, 2000), though they would painfully find out that despite lower legal barriers, Japan was still a tough market to tackle.

Opening its doors in 1960 in France (Choi & Mukoyama, 2009), Carrefour was the second largest general merchandise retailer in the world behind Walmart with 596 stores in 26 countries when they entered Japan in 2000 (Seo 2000). Its history of

international expansion is long with its first international store opening in Belgium in 1969 mainly because of local French regulation that strictly regulated the opening of super-sized stores that Carrefour used to generate a majority of its revenue from (Choi & Mukoyama, 2009). Interestingly enough, the way Carrefour entered those 26 countries differed from region where there were some that were operated under joint ventures with local companies and others that were operated under a complete local subsidiary (Seo, 2000). Despite the variety, all were under the controls of Carrefour headquarters in Paris and took, to borrow Heinecke's (2011) words, an administrative centralization in operating their global outposts.

Carrefour opened its first store in Makuhari, a city in the greater Tokyo region, on December 8, 2000 (Seo, 2001). The first day was popular but also a disaster as a lack of cashiers brought long lines and the lack of preparedness resulted in many key items to sell out and not be replenished (Kojima, 2001), foreshadowing Carrefour's demise in Japan. Within a month, Carrefour opened two stores in Minami-Machida, a characteristic suburb of Tokyo, and Koumyouike, a suburb of Osaka (Nemoto & Tamehiro, 2001). Carrefour grew to have eight stores, but with struggles in sales and poor performance in France, they decided to sell off all its stores and retreat from Japan in 2005 (Choi & Mukoyama, 2009).

Costco

Despite having a very tough reputation on retailers (Nakamoto, 2012), Japan's markets awarded Costco with the fruit of success. Costco, the American hyper-market retailer, was no different in category than Carrefour, but they conquered the adaptation portion of Heinecke's (2011) requirements for a successful international business.

Costco started business in the United States as a wholesale retailer in 1983 when this category was in its infant stages (Nemoto & Tamehiro, 2001). Many new competitors arose in this field, but by the end of the 1990s, the market saturated with Costco and Sam's Club, a Walmart subsidiary, which pushed Costco to international markets like Japan (Seo, 2001). Wholesale was a new form of retailing where it only accepted cash as payment. Its target was small business owners as well as consumers who were willing to buy a lot to reap the benefits of the economy of scale (Sato, 2012).

This unique mix between retailer and distributor was brought to Japan when Costco opened its first store in Fukuoka after establishing its Japanese subsidiary in 1999 (Seo, 2001). Although they had issues to solve after opening its first store (Kojima, 2001), they opened its second store in Makuhari, the place where Carrefour opened its first store, a year later (Seo, 2001). In 2002, Costco opened its third store in Machida, called the Tama-Sakai warehouse, on the other side of town from Carrefour's Machida

store. From this, Costco has grown to 18 stores as of 2013 (Locations, 2013).

IV. Analysis

Although Carrefour failed and Costco succeeded, it would be wrong to say everything Carrefour did was wrong and Costco did was right. As a matter of fact, Carrefour did have some good policies and Costco bad (Kojima, 2001) that potentially could have changed the outcome to the opposite. This section will focus on what the two companies did in the next three topics in Japan to evaluate how well Costco adapted and how Carrefour did not.

Marketing

The way the two companies viewed their business was perhaps the biggest reason why Costco succeeded while Carrefour did not. Costco built its business model above the assumption that customers will arrive in cars occasionally and stockpile everyday goods bought from its stores (Seo, 2001) while Carrefour viewed its stores as a complete mall with a high variety of merchandise that people would use every day (Kojima, 2001).

Carrefour made a critical mistake in its model here because they did not realize that their stores were relatively hard to access due to distance (Kojima, 2001). Many consumers only came once in a while and expected Carrefour to offer the atmosphere

and products specific to a French market (Yamakawa, 2005). Contrary to the expectations, Carrefour pursued a complete adaptation by selling more Japanese products which lost clientele and made it hard for Carrefour to differentiate from other supermarkets local to Japan (Choi & Mukoyama, 2009). Unlike the success story of Toys R Us in Japan, the level of competition of supermarkets was high so Carrefour not differentiating but rather joining the competition only spelled disaster for the French company (Nemoto & Tamehiro, 2001).

Costco, on the other hand, was clever to base its business on less frequency and stockpiling which allowed it to differentiate from other supermarkets at the time (Seo, 2001). Because the stores were quite far and buying bulk meant descent cargo capacity, targeting its consumers with cars reflected reality very well. Contrary to supermarkets trying to provide as much variety as possible, Costco tried to differentiate itself by only providing 4000 products which maintained the quality of each (Sato, 2012). Initially, both Carrefour and Costco ignored the importance of import goods, but from experience from their first store, Costco decided to make 30%-40% of their offerings to be imports (Kojima, 2001). Costco adapted well by listening to consumer demand and answering it while Carrefour ignored it and changed its own strategy for the worse.

Location

Interestingly enough, there were two cities where both Carrefour and Costco opened its stores to. Makuhari and Machida, both suburbs of Tokyo, were the two cities that had a Carrefour store as well as a Costco warehouse simultaneously (Seo, 2001). The two supermarkets opened its door to the same customers yet Costco did not close but Carrefour had to retreat. This had to do with how the two marketed its stores.

In the example of Machida, Machida and the outlying Tama regions are unique in that it is home to a higher family income yet low purchasing power due to higher expenses like mortgage payment and education for the children. It was natural for this area to be filled with supermarkets specialized in cheap goods (Seo, 2001). As mentioned above, because Carrefour tried to directly compete with Japanese supermarkets, it lost its uniqueness as a store (Kojima, 2001). When Carrefour opened the Minami-Machida store, it had to compete with many other supermarkets in an oversaturated area so it was natural for them to struggle (Seo, 2001). Costco did not suffer from the oversaturation in the Tama region in its Tama-Sakae warehouse because it marketed its stores, as mentioned already, as a low frequency, heavy shopping store with a larger customer range than Carrefour (Sato, 2012).

The example of the Makuhari area is even simpler. Despite Carrefour having better access to public transportation than Costco, there were many competing

supermarkets in the area that had better access, so they again suffered in this area (Kojima, 2001). Costco had issues with accessibility in its Makuhari warehouse, but since it targeted customers by car, somewhat poor accessibility did not affect its competitiveness as a retailer (Seo, 2001). Location significantly hurt Carrefour because its marketing strategy was close to Japanese supermarkets, but it did not hurt Costco because its differentiation made them avoid competition with local supermarkets.

Supplier Relations

The way the two companies dealt with suppliers also says something about adaptation. Unlike Europe, Japan has a unique system of distributors and its networks (Seo, 2000). In a collectivist society like Japan, distributors and retailers maintain harmony by avoiding arguments, but that also can be implied that these types of societies will try to destroy anyone that tries to break this harmony (Brislin, 2008). Upon entry to Japan, both Carrefour (Seo, 2000) and Costco (Kojima, 2001) had a policy of dealing with suppliers directly without using distributors to keep prices low. When Carrefour brought that policy to its operations, the obvious reaction was suppliers refusing to do business with them from pressures from other distributors (Choi & Mukoyama, 2009). Also, the assertive way Carrefour negotiated with manufacturers and suppliers helped to segregate Carrefour even further (Seo, 2001). Costco initially gave

up on the idea of dealing directly, but with fair agreements and strong commitments on order according to sales gradually convinced suppliers to supply popular items and manufacturers to contract directly (Sato, 2012). Although Carrefour and Costco initially failed in trying to be supplied products from manufacturers directly, Carrefour could not build trust in business to bend the rules while Costco did with long transactions.

V. Conclusion

Many argue that more sectional barriers will be broken with time, and the world will become, in Friedman's (2007) words, a flat world. It is, then, vital for companies to make use of this trend for their success in this era. A start is to analyze examples of companies entering foreign companies to which this paper discusses the case of Costco and Carrefour adjusting to Japan. Carrefour could not dig a deep root in the Japanese market because they simply could not adapt nor differentiate. Costco is, on the other hand, a good example of effective adaptation and differentiation that allowed it to even get citizenship in Japanese culture itself. These two examples empower the idea that in order for foreign companies to succeed in Japan, they must not only adapt to the Japanese market both on the consumer as well as the supplier side, but also differentiate so it will have an edge in competition with local businesses or none if the differentiation can lead to a niche. The universal theme that can be deduced from this is that companies

need to adapt on all levels when entering any foreign market and must be able execute its aggregate global strategy (Heinecke, 2011) as a marketing tool to differentiate from local competitors. It is then when companies can finally harvest the benefits of globalization and generate profits abroad.

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