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Distribution Revolution Initiated from Wholesaling:

Mr. Takashi Onisi’s Challenge

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Mr. Takashi Onisi, President of Onisi Iryo (then), spoke on the future distribution structure and his response to it as follows in June, 1998. [1]

"Our cash-and-carry wholesaling operation has bases in Tokyo and Osaka where retailers from the entire country come to purchase their merchandise. But cash-and-carry wholesalers need to have a perspective as 'local wholesalers' located in big cities. This is because the information from our stores has been biased toward the buying trends of regional retailers with large purchase quantities, and has not paid enough attention to retailers in the vicinity of big cities. Of 65,000 retail customers of ours, 40,000 are retailers in the neighboring areas within a day trip range, but only 30,000 of those come to our stores frequently. I believe that we can attract more customers from the vicinity of big cities by upgrading our assortment.

Our company is organized in three divisions: the First, Second, and Accessories and Miscellaneous Clothing Divisions. The First Division mainly deals with retailers who visit our selling floors. Customers are from the vicinity of Osaka and Tokyo and they buy not only high turnover items but also branded goods with higher unit prices. In Tokyo we are buying more goods from 'mansion-based' (small) manufacturers with high fashion sensitivities.

The Second Division targets large regional retailers who buy in large quantities. Since they come from a distance their transportation costs and time are considerable. We have to provide them with a system in which they can purchase without coming to our stores or, if they come, they can make efficient purchases. We have been testing new selling methods in addition to the existing method of selling in sets; we are selling outerwear by hangers.

For utility garments, our subsidiary, Family-Joy, has developed a system that would collect retail sales data on line and automatically deliver goods to the stores. I would like to realize the same system with outerwear.

In the meantime, we have been assigning middle and young executives to our subsidiaries. The sales of Family-Joy and Self-Tenken have been growing steadily. If you summed the sales of our subsidiaries, the total would be nearly a half of that of the parent company. In February, President Megumi Ishikawa of Beallen, a chain of ladies wear specialty stores, was appointed Vice President of the parent company. He is expected to make significant contribution to the growth of the entire group (Onisi Group) because he understands well what subsidiaries need from the parent company.

Retail supports have been our constant concern. Our retail customers will have to change very much from now on. Roadside-type general clothing stores will enlarge their selling floor space further and may become key tenants of regional shopping centers (SCs). Stores located in existing shopping districts may become specialty stores in large suburban SCs. Then retailers will have to be more efficient in merchandise procurement and have better know-how of location selection and store management, but those are matters that are difficult for individual stores to respond singly. Hence our subsidiaries are accumulating know-how by challenging the development of new business models and constructing systems that will assist retailers who are confronted by changes.

Driver-Stand, a chain of automotive parts and accessories stores, was acquired in 1993, and has grown to annual sales of ¥17.8 billion. This firm was not in the textile area, our main line of business, but was acquired for the sake of retail support. Some customers used to come to us for advice when they received offers of real estates for their stores, but we could not give advices with conviction because we had not have experience in managing roadside retail stores. Since Driver-Stand have had roadside stores, it had know-how of checking new locations and establishing new stores.

Even though an automotive good chain may have many stores, most stores were franchisees. We wanted also learn the FC business. Of Driver-Stand's 43 stores seven were franchisees.

As another experiment, we operate Beallen, a specialty store chain of ladies wear, mainly in the Kanto area in order to obtain know-how of operating chain stores located in SCs. This chain's merchandise assortment consists of suits of clothes for married women that can be bought for ¥10,000. It is aiming at an SPA-type operation, but has not acquired sufficient production capability. If its operations, including its production side, become manageable, we will recruit retailers as franchisees and open stores in SCs.

Overseas production is the responsibility of Self-International. In order to make overseas production more efficient, we concentrated our overseas branches in Hong Kong in February of this year. The information on the availability of overseas production space and materials tends to converge in Hong Kong most. We concentrated all Japanese staff in Hong Kong and left branches in Soul, Shanghai, Taihoku, Manila, and Jakarta in the hands of local staff.

Since we have to secure enough order quantities to control production bases, we manufacture merchandise for the US as well as for Japan. The latter includes PB (private brand) merchandise for mass merchandisers in addition to our own merchandise.

We expect that consulting operations for retailers will occur from now on. It may become necessary to offer training programs for retail store managers and clerks. Self-Tenken is currently engaged in interior decorations and development of store fixtures, but I tell our executives 'Get the capability to develop regional SCs. We have to either develop our own technology, or find an affiliate from whom we can absorb such technology.'

We are building a business system with which we give counsel to retailers and provide concrete retail supports to them by comprehensively networking the functions of our group members."

1. Diversification of Onisi Iryo Management

Chairman Onisi answered to our interview as to the initiation of the company's diversification as follows. "We had been operating with a premise that wholesalers would disappear in Japan because they were already extinct in the US. I had been telling so to our people. I had been thinking when we should move to the business model called general merchandise stores (GMSs). But Nichii, Jasco and Itoh Yokado already had stores in two-digit numbers and had grown to a substantial size. I felt that we were already too late to enter the GMS field, so I gave three principal executives a half year leave and asked them to propose new businesses we should move into next. That was in 1966. They had been working hard with me until then and we had developed together all new businesses and things. They were familiar with and understand everything I thought of.

In 1968, Professor Shuji Hayashi of Tokyo University published *Distribution Revolution* which predicted the demise of wholesalers. All three of our executives had already seen the US. Half year later, they proposed a chain of large-scale ladies wear shops, such as Suzuya, a ladies wear chain, which had stores from 495m² to 660m² big. Another proposal was the manufacturing of children's wear. The line of merchandise that was bought by consumers most in GMSs was children's wear. American data showed that consumers bought 70% of children's wear at GMSs, but bought 70% of ladies wear at specialty and department stores. Therefore we were divided between establishing a ladies wear chain and manufacturing children's wear and selling them at GMSs.

My father, who was Chairman at that time, was absolutely against retailing. We wanted to go that way, but couldn't. So we decided to manufacture children's wear and sell to GMSs, such as Daiei, Jasco, Nichii and Itoh Yokado because they were all charter members of Pegasus Club. I told them that I would not open GMSs next to their stores, so please buy children's wear from us. They all said they understood wholeheartedly. Mr. Nakauchi said that he could not bear the thought of our opening large-scale clothing stores and bought the largest quantity from us.

At that time I thought we had to have a brand and distribute it through department stores. Otherwise the brand would not be well recognized and treated as good products. So we acquired two subsidiaries from a textile fiber merchant named Kawagoe Shoji, which was then under the control of Asahi Kasei. We also acquired Kawagoe's Tokyo branch and from those three we created a company called Eton whose name and trade mark both belonged to the purchased company. The sales of Eton were ¥7 billion at its peak.

When we started manufacturing children's wear at Eton, we assumed that it would not be difficult to manufacture children's wear because we had been handling them at Onisi Iryo all along. But once we started, we found that those items developed by the personnel from the parent company did not sell well or left many stocks due to overproduction, while the items developed by Eton's own people would not make losses at all. The difference was information after all. The information we had at the cash-and-carry stores was past information about how much we sold last year or were selling at that time.

But we needed more than past information to manufacture things. We plan autumn and winter items around this time (January). We need information about what colors and materials will be selling in the coming autumn and winter season. As you go upstream in the distribution channel you need information about further into the future. For the manufacturing of fibers you need to know a lot further. At this time the information on what will be selling in the spring and summer seasons next year will be fed upstream to the spinners and weavers. This shows how difficult it is to go upstream.

We did not know what was really difficult, but knew that it was difficult to go upstream. It wasn't just difficult; very few were successful in doing so. Success ratios were very low. Many said that if wholesalers were to go either upstream or downstream, more of those who went down stream were successful. But we did not know the exact cause. Children's wear were something we had dealt with all the time, but we saw the difference clearly between those persons who were the employees of the parent company and those persons who specialized in them."

2. Self-Tenken

Mr. Onisi's reminiscence continues. "Two to three years later, we created a company called SI Center, which became Self-Tenken (the present Tenken Soui) which was really in a different business and even in different industry because it manufactured selling tables and counters. We thought that this business would bee very difficult and racked our brains on it, but it went without a hitch. Though we say "people, things and money," we did not realize that our customers were one of our business resources. The customers of our children's wear were not the same as those of our cash-and-carry business, but GMSs and department stores. They are surely our customers, but not our customers of the past; they are newly made customers. We had not thought that the customers of our cash-and-carry business as a business resource.

Since Tenken Soui designs and creates the stores for our customers, those customers feel at ease because we calculate every poles and shelf boards and bill them up to the last digit of yen. The usual custom in that industry is to round up to the least ¥10,000. Our customers say that, when we bill them up to ¥5, they just have to pay up punctually.

The starting point of Tenke-Soui's business is our customers' stores. They used to come to us saying "Introduce us to a good company because we are renovating our stores," and we used to introduce them to three or so specialists in the field. But there were many complaints. We started thinking what we would be doing if we were to take on those renovation jobs ourselves. After all we did have our own selling floors. That gave us the idea.

That was how we moved into the system fixture business, because we were using them. Until then retail system fixtures for supermarkets, such as selling tables and racks for food items, had been well supplied, but those for clothing stores were not. So we moved to this direction. Our experience in developing market baskets based on bird cages after I returned from the US helped."

After this, Self-Tenken introduced the first computer-aided design (CAD) system in the distribution industry in September, 1982. The company has a database of 100 standardized store patterns selected from approximately 5,000 cases that it has handled in the past. When a renovation order is received from a customer, the company will extract on the screen a store pattern that is the most similar to the customer's merchandise assortment, size and location, adjust the pattern to fit the customer's desires, and complete the store design.[2]

In October, 1985, Onisi Iryo moved and expanded the Self-Tenken store. This new store unified two former stores and since then tried to strengthen its functions by expanding assortment of the product sales department. The new store was located in the Shinsaibashi Street on the south side of the Onisi headquarters building in Higashi-ku, Osaka-shi. It was five stories high and had a selling floor space of 1650m^2. The first floor sold display fixtures such as hangers and wagons and special fixtures for bargain items; the second floor sold system fixtures and glass cases, making the total floor size of the product sales department 590 m^2. The third floor was devoted to a consulting corner for store construction and renovation, the fourth to a store design and construction corner, and the fifth to the store design department using the CAD system.[3]

3. Family-Joy

Later Chairman Onisi established Family-Joy in 1990. The sequence of events leading to the establishment is recalled by Mr. Onisi as follows. "We had a slightly different perspective in the case of Family-Joy. We received, some by telephone, and fulfilled many orders for clothing items from GMSs. When our customers came to our store, they used to bring lists of intended purchases and gave them to our employees for fulfillment. Though blouses and outerwear could not be bought this way because the customers had to see the merchandise with their own eyes, the orders for standard items, such as underwear and socks, could be fulfilled if the purchase list was given to us. There were many items like that.

Retailers were spending substantial buying costs and expenses on such items. If we could automatically fulfill those orders, we would be saving our customers some buying costs. We selected items for which additional orders could be followed up automatically and experimented (our automatic replenishment system) in one retail store each in Okayama, Wakayama and Chiba. The Okayama and Wakayama stores were ordinary clothing stores with selling floor space of between 231 and 264m^2; the store in Chiba had approximately 500 m^2. In our experiment our customers were pleased and said that, if we had operated a system like this, they would have an easy job and would not have to do anything with this kind of merchandise.

However, for this system to work, our customers would have to optically scan the day's sales data and send them to us. We asked them to install a machine at our expense that would extract data from the customer's cash-register, by collating them with price tags especially developed for this purpose, and send them to us. That was not much of investment.

Family-Joy's business dealt with only those items that could be ordered and fulfilled automatically. From the beginning we guaranteed 28% gross margins to the retailers, and that reduced retailers' costs. By reducing retailers' costs in this manner, we would be helping their growth and expansion to multiple stores. Besides those ideas, since the merchandise sold in this system could be also sold at Onisi Iryo in different packaging, our overall sales volume would increase and reduce buying costs.

Since Family-Joy's gross margin was about 23%, the retailer's cost was about 49% of the retail price. The retail margin was 28% and our margin was 23%. Uniclo's margin was from 45% to 50%.

We did not intend to go into retailing ourselves as Family-Joy in the future. We were thinking in terms of an FC operation. We were just trying to reduce retailers' costs to help them grow and expand into multiple stores."

In February, 1998, Family-Joy prioritized, and since then has tackled with, making store-front stock management more precise, constructing a network system to tie manufacturers and franchisees, and improving product quality. Its objectives were 300 franchisees and sales of ¥6.9 billion. The Family-Joy Support System supplies the retailers with utility garments from time to time using POS systems. At the same time it carries out the tasks related to store management, such as shelf allotment and pricing on the retailer's behalf. In the period ending in February, 1997, Family-Joy's sales were ¥6.2 billion, a 12.5% increase over the previous year, and the number of its franchise stores was 260, an increase of 30 stores over the previous year.

In store-front management more "field ladies" were hired in this autumn. Field ladies complement the supervisory activities such as putting books in order and checking stocks. At present 12 field ladies are registered, but the number will be increased in the last half of this year. Since the spring of 1997, each of five stock controllers has been paired with a buyer and charged with reducing stock-out ratios and improving stock turnovers, and they will be also increased. The name of the network is Bricks Net, which is aimed at creating a coordinated system of manufacturers and sellers. Until now the company has been collecting information from its customers over the internet, but supplying the same information to manufacturers and wholesalers by facsimile and telephone. This time it will form a network with approximately 300 suppliers through the internet and install a server specialized in external communication.[4]

4. Driver-Stand

In April, 1993, Onisi Iryo made Driver-Stand (Higashi Kurume-shi, Tokyo, President: Mr. Ituo Hara), a chain of stores that specialized in automotive parts and accessories, its subsidiary by acquiring 111,500 shares of Driver-Stand, approximately 93% of its issued common stocks (120,000 shares), and appointing Mr. Onisi as its chairman with the right of representation. The amount of purchase was not disclosed. Onisi Iryo was to diversify its business and strengthen the retail department by this acquisition. Driver-Stand, whose demand for funds was increasing due to an active store expansion, would have easier access to funds by joining the Onisi Iryo group.

Driver-Stand is a chain of stores specializing in automotive parts and accessories and has 17 stores under the direct management and one franchisee around in the Kanto area. It has a plan to open 20 new stores by the end of March, 1997, and to increase its annual sales to ¥20 billion, doubling the sales in the fiscal year ending in March, 1992. This was why it came under the control of Onisi Iryo which had reserve financing power. In addition to Mr. Onisi, two Onisi executives, including Vice President Teruo Onisi, will serve as part-time directors of Driver-Stand.[5]

In our interview, Chairman Onisi looked back on what triggered the acquisition of Driver-Stand as follows. "We asked a bank to introduce us to a retail chain. It was the period when M&A was fashionable, or the beginning. We had a surplus of funds then, and Sanwa Bank moved. I was thinking in terms of a clothing chain. Though my father was adamantly against our going into retailing, it would be a different story if we could acquire one.

I believe that, unless we truly become familiar with retailing, we cannot think about the future establishment and growth of the wholesaling business. I am not stubbornly against retailing as my father was, because we have been already managing our customers' selling floors as Family-Joy is doing. We want to follow up this idea. Super-Value in the US has many stores under its direct management nowadays.

Driver-Stand was the retail chain Sanwa Bank brought to us. We had much to think about. Our customers, especially those of Family-Joy, used to come to us for advice on free-standing stores at the roadside. 'We want to open a store here, but what do you think?' But we could not give proper advice to this kind of consultation because we were not in the retail business and had very little know-how. In this respect, Driver-Stand had about 40 stores at that time, and we thought we could learn the know-how about location selection. In addition, Driver-Stand was in the world of the FC business though it had only 6 franchisees. Two-thirds of Autobacs stores are franchisees. We wanted to learn something about the FC business. Those two aspects agreed with our purposes.

To tell you the truth, we were a bit perplexed when Sanwa Bank brought this deal to us. Driver-Stand *was* in retailing, but its merchandise was too different from ours; our merger would strengthen neither our merchandise assortment nor it's. But we had much to learn from it and it was well managed. So we acquired Driver-Stand without much worrying about its management."

Later Onisi Iryo accelerated the pace of opening new Driver-Stand stores to about 10 annually, which was approximately 1.6 times more than before, and announced in July, 1996, a new plan to increase Driver-Stand stores to 100 and its annual sales to ¥60 billion by 2000, three times more than those of 1995. New stores, mainly franchisees, would be concentrated in the Tokai and Kinki areas, but opening chances would be sought in the Chugoku area as well. The number of stores was 36 (of which 31 were directly managed and 5 were franchised) at the end of 1995, and the annual sales were ¥15.5 billion. At present the stores are mostly in the Kanto area and only 8 stores are in the Kinki area and 2 stores were in the Tokai area.

New stores will be basically expanded to 660m^2 to increase merchandise assortments and the number of service pits for tire and oil exchange will be increased to 6~8 in order to improve services. Currently the standard selling floor space per store is 500 m^2 and the number of pits is 4. While Autobacs Seven and Yellow Hats in the same business have merchandise assortments focused on 4-wheel vehicles, Driver-Stand has a much wider assortment, including items for 2-wheelers, as one of its features.[6]

5. Overseas Expansions

In 1957 Mr. Shinpei Onisi, Mr. Takashi's father, made an investigative visit to the US alone. Mr. Onisi remembers those times as follows. "(My father said) 'Highways are off the ground. Look at this photograph. Cars are running over your head. You won't understand it unless you stand below them. You won't understand how big the country is till you go there. The land is 20 times larger and the population is 3 times larger than Japan. You won't know how sparsely stores are distributed and how far between stores until you go there. So go at all costs.'

In those days we had to get foreign exchange allocation to go to the US. We could not get allocation unless we exported more than $100,000 a year. So (my father told me) 'You should export,' and put me in charge of export operations. We exported ¥100,000 in approximately one and half years, and in 1959 I went to the US with $500 foreign exchange allocation we received."

"At first we started trading with Hong Kong. For a long time after that we had been trading in Southeast Asia. We developed a relationship with Hong Kong by the help of Nakanishi Ltd. which was then an exporter of handkerchiefs and gave foreign exchange allocation to my father when he went to the US. Nakanishi Ltd. had been trading with Hong Kong even before the WWII. Our relationship with Hong Kong was limited to exporting and we traded with about five companies.

We exported nylon mesh scarves flock-printed in polka-dot or floral patterns. Of course they were made in Japan. Such rare Japanese items sold well and very profitable in the Hong Kong market. Since those sold well, we were invited to gorgeous meals even though we were on the selling side.

After that, I went around various countries in Southeast Asia from the Hong Kong base to explore markets. Since we obtained from Hong Kong sources information about to which countries they were selling, I had to see those countries. We went to Singapore next.

However, the final objective of our export business was the US. I went to the US in 1959 and, after seeing how large the country was, I was convinced that we had to export to that country. Our initial goal was to produce merchandise that would be included in Sears' mail-order catalogs. After we started exporting to the US, the peak was in either 1962 or 63.

What we learned the most from exporting to the US was the verification of American chain store principles. For example, we finally received orders from K-mart around 1965 for babies wear sets of a sweater, a legging and a hat. At first the orders were small, but before long they grew to 30,000 doz. (360,000 sets).

We had the sets made in Takaoka, Toyama Prefecture. The whole town eagerly participated in hand-knitting and crocheting of the product, and because they made the same thing everyday, the costs started to come down. One year later the order grew to 50,000 doz. In that case we negotiated from the price of yarn. Since we bought the yarn from Asahi Kasei, I bargained with it by saying "We'd buy so-and-so tons, so give us the best price." Because of the huge quantity, we got good prices in dyeing and other processes. The babies wear set was hand-made, so the efficiency went up drastically when workers kept producing the same thing, and the cost was drastically reduced. This experience gave me a clear realization of the chain store principles. We had dealings with K-mart for about ten years after that.

Later our buyers went to Korea, Hong Kong and Taiwan to produce many items because they knew that the same items cost more in Japan. But things did not go as smoothly with the foreign contractors as Japanese ones because of delivery delays, poor quality, etc. Our buyers begged me to do something to control delivery periods and quality, so we established branches in those countries by acquiring export licenses in each country. At that time each country received an export quota from the US."

Onisi Iryo changed the name of its children's wear subsidiary from Eton to Self-International and had it absorb the International Business department of the parent company in September, 1983, to strengthen and expand the apparel business. Eton's children's wear business had been limited to the domestic market and its sales so far was approximately ¥2 billion annually. But, since the International Business department had been producing babies wear in 3 countries (Taiwan, Hong Kong, Korea) and successfully exporting it to the US, Europe and Communist countries, the new company started to handle exports of children's wear at the occasion of name change. The immediate objective was an annual export of ¥300 million. It would handle exports to the US in the future. The overall sales of the new company were expected to be ¥7.4 billion in its initial year.[7]

Self-International established its eighth overseas base in Shanghai in December, 1993. Until then the company had been using its Hong Kong branch for sewing-on-commissions contracts and export operations to China. Because sewing factories have been moving to the northern and central China from the surroundings of Hong Kong in recent years, the decision was made to establish this new office in Shanghai. Initially it will start with a staff of four. It will be engaged in searching for new sewing factories and controlling delivery dates and product quality at the contracting factories, and become the export base to Japan. The Hong Kong branch will be concentrating on trilateral trades involving the US.[8]

In August, 1996, Onisi Iryo announced that it will intensify the external sales of imported clothing through Self-International, which will be positioned as an external sales specialist after this autumn. Also since it is judged that the management of overseas factories and branches can be better controlled from Hong Kong, the Self-International's headquarters functions in Japan will be moved Hong Kong. By utilizing the network of affiliated sewing factories throughout Asia, it will expand the supply of merchandise to both domestic and overseas apparel and mass merchandisers.

Self-International had established a fully-owned subsidiary in Hong Kong in 1995. The branches and offices in Soul, Shanghai, Manila, Singapore and Bangkok had been already placed under the control of the Hong Kong subsidiary. A system in which both Taipei and New York, US, branches will be controlled by the Hong Kong subsidiary will be completed by the end of August. As the headquarters functions are moved to Hong Kong, Self-International wants to make it certain that its products would fit customers' needs, and is searching for design agencies that can be trusted with the planning of merchandise for the US. It is also planning to establish a branch in Vietnam and increase affiliated sewing factories. At the Osaka headquarters it will concentrate on import agency operations for the orders received from apparel retailers and mass merchandisers. The merchandise Self-International is importing from overseas and sell to Onisi Iryo occupies 80% (approx. ¥8 billion) of its sales.[9]

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1 "'One Hour with This Person,' Takashi Onisi, President, Onisi Iryo" by Masaaki Kotani, *Senken Shinbun*, , June 1, 1998, p.9.

2 "Senba New Mode (2) Advances in Information Systemization—'Light Imagery' Begins in November," *Nihon Keizai Shinbun*, Evening Edition, March 29, 1984, p.1

3 "Move and Expand Store Planning, Design and Contracting Department 'Self Tenken'—Onisi Iryo Also Expands Assortments," *Nikkei Ryutsu Shinbun,* October 7, 1985, p.9.

4 "Family-Joy Aims at Sales of ¥6.9 billion This Year and 300 Franchisees," *Senken-Shinbun*, June 11, 1997, p.2.

5 "Onisi Iryo Acquires Driver-Stand," Nikkei Ryutsu Shinbun, April 6, 1993, p.15.

6 "Onisi Iryo Accelerates Shift Toward Automotive Goods—100 Shops by 2000," *Nikkei Ryutsu Shinbun*, July 25, 1996, p.11.

7 "Onisi Iryo Changes Name of Apparel Subsidiary and Absorbs It—Begins Export to Southeast Asia," *Nikkei Sangyo Shinbun*, September 13, 1983, p.13.

8 "Onisi Iryo Opens Shanghai Office of Export Business Subsidiary," *Nikkei Ryutsu Sinbun*, December 7, 1992, p.17.

9 "Onisi Iryo Puts Import Clothing Headquarters in Hong Kong—Expands Supply to Mass Merchandisers," *Nikkei Ryutsu Sinbun*, August 8, 1996, p.15.

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