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The Retail Market for Wool Products: The Case of Men's Suits in Japan

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[CONTENTS]

[1] Introduction

[1-1] Introduction

In 1980s', especially since the beginning of the dramatic Yen appreciation in 1985, Japanese imports of textile products began to increase at an amazing speed, and, for example, in 1989 the amount of the imports of cotton yarn was larger than that produced in Japan. However, the import ratio of wool products, especially that of worsted yarn products, has not risen so drastically.

Among the internationally traded consumption goods, such ones as electric appliances, automobiles, cameras and even toys are sold in different coutries only with slight accomodations, if necessary. However, textile products need accomodation. As the high-priced outerwears which use most of the worsted wool yarn are concerned, consumers' demands are diverse and differentiated both within and among countries, and suppliers need pay attention to the difference of tastes of consumers and accomodate their products accordingly. The presently dominant forecast is that the import ratio of wool products, especailly that of worsted yarn products, will not rise drastically in the near future, because Japanese consumers are so demanding in qualities and product differentiation, and so keen at the various supplying activities, such as lead-time for delivery, customization. Moreover, it is recognized to be difficult to shift abroad their production processes, in any form such as direct investments, joint

ventures, technological transfers, and the delegation of the personnel for inspection of products.

Even if people agree with the forecasts of the rapid increase of the imports of knitted products, carpets and blankets, pessimistic forecasts will not meet any strong objection, especially the future of the imports of the worsted yarn products such as worsted yarn textiles and clothing (for example, men's suits) are concerned.

In this paper, we challenge these dominant forecasts, although we could explore only one category of wool products, i.e.,men's suits, and will draw a greatly different forecast. This is the first objective of this paper.

Our forecast is that the large, or rather major, part (evaluatd in volume wieght) will shift abroad in the near future. Three major reasons which will cause the shift are as follows. Firstly, the severe labour shortage and high labour costs. By pointing out the recent spliting trend in the suits market into two submarkets and paying attention to one of them, submarket for "basics", not for the highly differentiated ones, secondly, the decrease of "transaction costs", including communication costs, transportation costs and inventry costs. And finally, the changing distribution channels in Japan. This shift will occur in parallel with the reorganization of the production processes, their locations, the distribution system and possibly the product concepts themselves.

Our second objective is to search, gather and supply the informations on the distribution systems in these fields, which will be a great help for the further studies.

Section 4 is a short comparison with the case of knitwears, where we test and ascertain the applicability of the conclusions of the paper.

[1-2] The Reason Why We Confine Our Attention to Men's Suits

As the products classified as "wool products" are the collection of the products so diverse in character, to explore and investigate the whole field at once seems to us to be so confusing and dangerous and we decided to select some subcategories. As the first stage, we select "men's suits" and confine our attention to them.

The reason for this selection is as follows.

Raw wool is a basic material, and the demand for it is a derived demand in character. When we see the final stage of the production process, we find that wool is one of the materials which are very close substitutes and this suggests that we should start our analysis from the final products (not the original material itself, for this choice cannot meet the need to take the importance of the competition among materials into consideration). As the number of subcategories at the final stage is so large and we cannot find the dominant characters in common among them, we should select some of them.

The reasons for our selection of "men's suits" are the following 5.

(1) This is the representative subcategory among those of worsted yarn products, and the consumption size of worsted yarn products is much larger than that of wollen yarn products.

(2) Although the total demand for wool of female apparel is larger than that for male use, the amount of textile allocated to male cloth is still larger than that for female cloth, and men's suits occupy the dominant position among wool cloth for male use. So, men's suits is the biggest subcategory among those of worsted yarn products.

(3) As is shown in Table 1, Japanese consumers have special preference for wool (especially pure wool) suits, and by confining our attention to this subcategory we are able to neglect the competition with matearials other than wool, which make our study much simpler.

Table 1. Consumption Volumes of Men's Suits in 1988 (Units: million sets)

Country	Bel-gium	France	W.G.	Italy	Ja-pan	Holland	U.K.	U.S.A.	To-tal
Total Consumption:(A)	1.1	4.9	6.1	4.7	13.9	1.6	6.9	15.5	54.7
Consumption of Suits Mainly Made of Wool:(B)	0.7	2.1	3.0	3.1	11.0	0.9	3.8	5.9	30.5
(B)/(A): %	64	43	49	66	79	56	56	38	56

(Data): Wool Facts(IWS)

(4) The cross elasticity of substitution in demand between men's suits and other cloths in the neibourhood (for example, men's jacket) is rather low and stable, which make it possible to regard this subcategory as isolated, therfore as an independent market. On the contrary, we cannot find any market of such kind among subcategories for female use.

(5) When we look closer at this subcategory, we find that the products are so differentiated, and the suppliers compete keenly in gaining the choices and supports of demanding consumers. As will be shown later, the requirements for "quick response" in apparel industry in general (not only in men's suits subcategory) is recently so strong and suppliers such as retailers and apparel makers are struggling for meeting this requirement through reorganizing and establishing their production-distribution systems, and "men's suits" market is the field suitable for the study of these new developments.

With these reasons we confine our attention to men's suits, and to extend our attention to other subcategories and, if possible, to test the appllicabilities of the conclusions drawn in this report to other fields remains as the tasks for the future studies.

[1-3] The Reasons for the Dominant View

The reasons for the dominant view that the imports of men's suits, including the products made in the overseas factories of Japanese apparel makers and retailers, will not increase dramatically in the near future can be classified as the following 2.

(1) The first reason concerns with the technological aspect of the fabric production, and is to be discussed in detail in the accompanying paper by Fujimoto and Asaba[1992].

The production process of worsted wool fabric can be divided into a large number of simple (although some of them need

specialized technical know-how) works, and usually many independent firms each of which is in charge of some of those works join in this process. At the center situate the textile makers and act as the coodinators and the organizers of the production process, which is organized as to use the form of division of labours and to attain at the same time the economies of scale and economies of specialization. Anyone trying to dispatch some portion of these processes and shift abroad will suffer from the disadvantage of high costs, and they gather together and form "production area (in Japanese, "San-chi")". In Japan, most worsted wool textile makers with suppliers of accompanying activities gather in the northern part of Aichi-ken (Ichinomiya is the central city of this area), and it is said that especailly because of the accumulated technical know-how and the scale economies of dyeing works, even if someone build plants for spinning and weaving outside of the "area", they must carry their products to Ichinomiya before shipments.

Therefore, the imports of worsted wool textile to Japan can be expected only through the following 3 ways.

(i) The imports of the products, especially high-quality with high-price products, made in the well developped areas, such as some particular areas in Italy and UK. Although the absolute amount is not so large, the imports through this way are used and are expected to remain one of the supply sources of high-grade textiles. However, as they have almost no labour costs advantage, and they face disadvantage of the long distance which make it

impossible to meet the requirement of quick response, their weight and/or volume is not expected to increase so much[2].

(ii) The imports from the neighbouring countries of the standardized products (sometimes called, "basics") may seem to increase tremendously, as happened in the fields of cotton cloth and knitted wool products. However, except for Korea, because of the warm climate, their domestic market is so small that need not and make it impossible for their domectic industry to experience the take off. Therefore, it is difficult for them to supply a large amount of textiles with the required quality. As for Korea, it is said that the labour costs level has alredy risen so much and still rising so rapidly that the amount of imports will not increase so much, even if the product quality reaches the required level.

(iii) There is the possibility that some Japanese textile companies build their production capacity abroad in the small scale but in a complete package form, maybe specializing in textiles for "basics". Even at present in Japan some of the largest spinners have the dyeing capacities in their factory, and use them for the products in a large lot size and with rather simple quality (for example, working uniforms for rairoad companies). We will again mention the possibility of this in section 3.

(2) The second reason concerns with the requirements which come from the characters of consumers' choices, whose importance has become larger in recent years.

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[2]As for the level of the production technology in general for making textile, Japanese makers assert that their level is at least the same.

When and in what situations people wear "suits" and what conditions consumers expect and require to them depend on various kind of variables, including, the climate, social structures, and a kind of "social norm". Therefore, what consumers expect to "suits" and what kind and type of suits they prefer may differ between countries and may change with time.

In Japan, in our view, consumers' expectation can be regarded as the mixture of the following 2 functions.

(i) The function as a working uniform, especially for "office work", for example, in banks and local governments, and salesmen. (Therefore sometimes expressed as "business uniform".)

(ii) The function as one of the measure to express and differentiate himself, the same function as most outerwears have in common.

As will be discussed in the next section, recently, in Japan, the importance of the second function has been emphasized and asserted to dominate the first function. (Someone calls, "the age of fashion", and another "the age of peacocks" or "the peacock revolution".) Suppliers, especially those who occupy the dominant positions in the mainstream distribution channels such as large department stores and established apparel makers, have competed keenly in supplying more"fashionable" and differentiated products and appealing to consumers their position to be the front-runner of the time. In order to adjust their function to the requirements of the time without increasing their costs drastically, suppliers try to reorganize the production processes and distribution channels suitable for "quick response", which

needs to combine the production of many items in small lot sizes and to enable the speedy and frequent delivery.

Why this can be the second reason comes from the fact that such kind of "quick response" system needs dense communication among the participants of the system and speedy and not-expensive transportation means. In order to carry such a complicated production process efficiently, the system organizers or the channel leaders have to collect and transmit a vast amount of informations about the consumers' preferences, interpret them and again transmit the results to the production points speedily. (In this regard, when we consider the possibility of shifting the production process abroad, the languages may become one of the important restricting factors.) Moreover, when we see that the admissible maximum lead-time for delivery is 2 weeks, as will be shown later with an actual example, the importance of the physical distance between production point and consumption point and the transportation costs can be easily understood.

Garment factories need not locate in special production area, such as the areas called "san-chi", and the recent development of the numerically controlled machines has reduced the importance of the technical know-how. Therefore, only with the small number of skilled personnels to supervise the production process and inspect the final products, it is not so difficult to build and operate a garment factory with sufficient quality even in the areas without the tradition of wool textile industry, which, with the severe labour shortage and high labour costs in Japan, may seem to result in the speedy shifts abroad of garment factories. The barrier prohibiting these shifts is the

character of the consumers' demands, and anyone who try to challenge this barrier is supposed to sink immediately with the burdens of unselling inventories.

One of the remarkable trends in the Japanese men's suits market which has become apparent in 1980s', especially in the second half, is the demands for the more diversified products and the pressure to build the distribution systems and production organizations suitable for "quick response", which mainly happened in the mainstream production-distribution channels. However, we should mention the importance of another powerful trend, which began to gather widespread attention only these 2 or 3 years, and this trend suggests the possibility of the shift abroad of the production capacities in large scales. We will discuss this new trend in [3].

[2] Background or General Informations on Mainstreams

[2-1] General Informations

Japanese consumers have special preference for wool products, especially for pure wool products. As was shown in Table 1, 70% of men's suits consumed in Japan are made of wool, and, therefore, usually, a men's suit means a suit made of wool.

Table 2 shows the long-run production trend in the Japanese men's suits market.

Table 2. Production Volumes of Men's Outerwears in Japan
(Units: Million sets)

Year	1971	1975	1979	1983	1986	1987	1988	1989	1990
Men's Suits	8.6	11.2	8.8	7.4	9.7	10.2	11.0	11.9	12.2
Jackets	5.0	7.5	5.5	4.7	6.4	6.8	6.7	6.8	7.1
Trousers	22.3	25.2	21.6	19.2	19.8	19.9	22.5	23.5	24.2
Overcoats	1.7	2.2	1.3	1.1	1.5	1.2	0.9	0.9	0.8

(Data): Zen-Shin-Ren (Men's Wears Manufactures Association)

This table shows that recently 10-12 million sets of men's suits are produced each year.

This number needs 2 comments.

(1) This is the sum of the numbers of suits made by the firms in the Association. As there are huge number of outsiders, 12 million is much smaller than the actual value. According to the association spokesman, the coverage ratio is 80% in the number of firms, and 90% in the volume weight, and a journalist of an industry newspaper suggests that the number of suits made by outsiders amount to one million.

(2) The Table shows that 7 million jackets and 24 million trousers are produced each year, and some of them are close substitutes and possibly confused or mixed in the process of producing the numbers for the report[3].

[3]In addition, in 1990, for example, 2 million sets of men's suits were imported. Roughly, 1/3 from South Korea, 1/3 from China, and 1/3 from Italy, North Korea and etc.

Table 3 shows the changing process of the production-distribution system for men's suits, from tailor-made to ready-made.

Table 3. Changing Process of Production/Distribution Patterns of Men's Suits (%)

Year	1960	1970	1975	1980	1985	1986	1987	1988	1989
Ready Made	38.6	46.0	63.1	71.1	69.2	73.3	72.8	76.4	81.0
Easy Order	8.5	12.3	14.4	16.3	20.9	15.5	13.9	17.4	13.0
Tailor-Made	52.9	39.2	21.8	12.1	9.9	11.3	13.3	5.8	6.0
Self-Made	--	2.5	0.7	0.5	0	0	0	0.3	0

(Data): IWS

In 1960, only 30 years ago, more than 50% were tailor(hand)-made and ready-made suits occupied only less than 40% of the market. Even in 1970 the share of ready-made suits was less than the half. Therefore, although today ready-made suits are the dominant form (in 1989 more than 80%) in men's suits production-distribution channel, it is the story only for these 20 years or so, and maybe we had better recognize the present situation of the channel suructures as still in transition, keeping in mind the possibility of dramatic changes.

The transition process from the era of tailor-made suits to that of ready-made accompanied the drastic decline of the price of suits. Also in the process of these 40-50 years of the postwar economic development, Japanese economy changed his character from the economy of agriculture to that of industry, and in this process the wears of the average people also changed

from the traditional Japanese style to the ordinary western styles. Therefore, also the position and the function of men's suits has changed greatly, and maybe we had better regard it as still in transition.

At the final stage of the distribution channels at present, big department stores occupy the biggest share, 30-35% in volume weight, and still higher in value weight. In the transition process, the share and the position of department stores at the retail stage has risen, and large-scale apparel makers which supply men's suits to those department stores have emerged through keen competition among newly born small makers.

As was suggested in section 1 and will be discussed in section 3, in these several years the weight of a group of retailers which take the form of chain stores has risen at an explosive pace, and it is said that in 1990 they occupy 30-35% of the market in volume weight[4]. Usually they are called "Road-Side Chain Stores (for Men's Wears)" because of their locations, and the biggest one, Aoyama, sold in 1990 about 1 million sets of men's suits through 277 stores (at the end of this March).

[2-2] Channel Leadership

Traditionally in the Japanese wool textile industry weavers had functioned as the channel leaders, not trading companies and spinners as in cotton and synthetic fibres markets. Between

[4] Most of the remaining market is occupied by GMSs (10-13%) and other speciality stores (10-15%).

weavers and a large number of small tailors had existed also a large number of small textile merchants.

Even in 1960 the price of a tailor-made suit was twice the monthly saraly of a bank clerk newly graduated from a university, and there had been strong demands as working uniforms for cheap and standradized men's suits which satisfied the minimum quality requirements, and appeared many tiny apparel makers.

In the transition process from tailor-made suits to ready-made, channel leadership had moved from weavers to big apparel makers, not to large department stores. At the beginning, at least, large department stores, which were one of the main suppliers of tailor-made suits and regarded as the sellers of high-quality, high-price commodities, were not active in making and selling ready-made suits. They only passively answered these demands by selling the ready-made suits supplied by small apparel makers at the small corners of their stores, whose weight has grown thereafter.

With the accumulation of technical know-how by apparel makers and the rise of the price of men's suits payable for the ordinary Japanese which occured with the rapid increase of their income, the positions of apparel makers in the distribution channels rose rapidly. Today, some of then newly born apparel makers has grown to big firms, whose representing names are Kashiyama, D'urban, Renown and Sanyo, and the sales value of the products for men's of Kashiyama, the biggest one, in 1989 is 115 billion yen. Therefore, at present the most important (or the main) distribution channel of men's suits is via big apparel makers-->large department stores.

In the second half of 1980s' has become apparent a new trend, the trend of splitting into two submarkets. One of them is the trend to high-fashion oriented suits with high-price, including the recent Italian fashion boom (e.g. Giorgio Armani, Trussardi are the representing brand names) and DC (Designer and Character) brand boom. The other is the trend revealed in the explosion of "Road Side" Chain Stores. The average price of men's suits in the first submarket is, say above 100,000 yen, and that of the second is between 30,000 and 40,000 yen[5].

[2-3] Cost-Price Structure[6]

Taking, as an example, a suit selling in a large department store at 75,000-80,000 yen, the trading price between the deparment store and an apparel maker is 45,000-50,000 yen. The direct manufacturing costs, the price at which the apparel maker buys them from garment factories is 20,000-25,000 yen. The cost of textile for this suit (2.6m per suit), which is the shipping price of a weaver, is 5,000-6,000 yen, and the price of worsted yarn for this portion of the textile is 2,500-3,000 yen, and the ulitmate price of raw wool is around 1,000 yen. Therefore, the weight of the raw wool costs to the final price consumers pay is between 1 and 2%[7].

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[5] At present the average price of the men's suits selling in the floor ("Hiraba", see [2-4]) of large department stores in Tokyo is between 70,000 and 80,000 yen.

[6] As is always the case, it is difficult or almost impossible to gather reliable, precise and unbiased informations on the costs and prices of each product, especially in such highly differentiated markets. Therefore, the actual numbers in [2-3] are only rough estimstes by the author.

[7] Even when we take more expensive suits, say 120,000 yen with Italian brand name, the cost of textile is at most 8,000 yen.

[2-4] Examples for Exposition: (1) A Department Store

Let us show the outlines of the states of a floor for men's products of one of the largest department store in Tokyo, which assigns the whole of one floor ($7000m^2$ in total) for men's products including suits.

The floor is divided into two categories. The first one is a collection of small box-type shops called "corners" (35 shops, and their average size is $65m^2$), each of which is for each brand, such as Giorgio Armani and Burberrys', and apparel maker. The second, called "Hiraba" (meaning "flat floor") is again divided into several areas, some of which are for men's suits only. (The "Hiraba" space only for men's suits is $400m^2$) The weight of the space for the former has risen drastically in 1980s, 5 years ago at the level of the half and today occupies about 2/3 of the whole floor.

The average price of the suits selling in the "corners" is much higher than that of the suits in "Hiraba". We will see the former in detail in [2-5], and here we see the states of "Hiraba", which are, at least potentially, in the competitive position with "road-side" chain stores.

In "Hiraba", usually 1,700-1,800 sets of suits are displayed and the store keeps about the half of this volume as the backyard stocks.

The number of apparel makers who supply those Hiraba suits is 6[8] and their trading positions are quite stable. Each of them

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[8] According to their comments, this 6 is larger than the average, and the suggested average is 4.

supply suits with several brand names, and roughly speaking with one brand supplied 100-200 sets, which consists of several (usually 5-7) types (in Japanese, "kata") and therefore each type contains about 20 sets for about 10 sizes.

They order for delivery twice a week to apparel makers.

Before the beginning of each season, they order for their reserves
to apparel makers, say, 200-300 units for each type, and revise those numbers with time[9].

In Japan one of the sales points of department stores is their intimate and delicate methods of selling activities, and certainly Hiraba suits are not exceptions. There are many consumers who require additional fine tunings[10] (not including the determination of the length of trousers), and the ratio of those customers is rising rapidly and nowadays at the level of 30%. These activities need 3-4 days.

In this department store today, about 20% in value weights of suits are sold through "personal pattern order" system. Under this system, (i) a consumer chooses the style and the textile at the counter, (ii) the specialists measure the sizes of the customer and gather additional informations such as tastes, (iii) the store sends those informations to the production points where they keep the textiles as stocks (in some cases they send the

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[9] Although now is said to be the time of fashion and the additional orders for the textiles for the high-fashioned suits cannot be attained during the season (therefore should be bought at one shot beforehand and kept as stocks), the revision of orders during the season is quite possible for the majority of "Hiraba" suits.

[10] Although JIS (Japanese Industrial Standard) contains 90 categories of sizes and types, many consumers require additional fine tunings (in Japanese "Naoshi"), and the quick response with high quality to those requirements is one of the sales points mentioned above.

necessary amount of textiles from their counter with informations to the production points), (iv) with the help of computer-aided machine they cut the textile and make a suit according to the order, and (v) they send the suit to the counter and hand to the customer. Only 2 weeks are necessary for the whole process[11].

[2-5] Examples for Exposition: (2) Melbo (an Apparel Maker)[12]

Melbo is one of the most successful apparel makers in establishing the systems to meet the requirements of "quick response". Most of their sales are men's suits of the high grades, and total sales amount to 13 billion yen in 1988, which is about 1/7 of Kashiyama's sales of men's products. The number of their sales outlets is about 200, including 70 in-shop stores in department stores.

They carry the whole sewing activities in their own 5 garment factories.[13]

Today, 80% of their suits are high-grade designers brands such as Givency and Trussardi, and sold under "ready made order system", and

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[11] This 2 weeks is just the same as the time for the order-delivery interval necessary for automobile production of Toyota. For this point, see Miwa and Nishimura[1991].

[12] This is a brief summary of 2.2. of Aichi-Ken[1990].

[13] In the wool textile industry in Japan, this is a highly exceptional case. Most of apparel makers depend most of the sewing activities for their selling suits on the cooperation with the outside garment factories. However, because of the complexities of the suits production process (jacket production process is said to be a collection of 160-170 sub-processes), own factories, or at least the exclusively-serving factories, are advantageous for "quick response".

the remaining 20% are ready-made suits manufactured by their own risk
depending on their anticipation. The working mechanism of the total system is almost the same as the "personal pattern made system" we explained at the end of [2-4][14].

As their suits are high-fashion oriented and differentiated, they purchase the necessary textiles before the season and keep them as their stocks. Their production process is organized by one piece-one lot method, and the necessary order-delivery interval is 2 weeks.

The price of the volume zone of their selling suits is above 100,000 yen.

[2-6] A Brief Summary

Although the history of consumption-production of men's suits in Japan is not so long, in these 20-30 years of development process there have emerged the mainstream production-distribution channels, that is , via big apparel makers ---> large department stores. At present, big apparel makers have established their positions as channel leaders, especially in this mainstream channels, and absorb mainly the risk in challenging the diversified and moving markets, act as the organizers of the complex and divided production processes and are now trying to establish communication-production systems for "quick response".

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[14]In 1977, when they began to build this system, ready-made suits occupied 60% and 40% were by "easy order" which had been overcome by this new system and disappeared.

The consumers' demands for more differentiated and high-fashioned suits, which have been one of the underlying key trends in these markets and have increased their importance in the second half of 1980s', seem to increase the importance of the roles of big apparel makers and have compelled them in pursuing these market trends. For this purpose, they are now trying to build their own garment factories, make their factories automated and large scaled, and establish dense communication systems with high-quality, which are in total the challenges to shorten the time-space distance between consumers and production points. These trends appear to make smaller the already small possibilities of the shifting abroad of the production plants.

[3] "Road Side" Chain Stores for Men's Suits[15]

[3-1] General Informations on "Road Side" Chain Stores

In 1980s', eapecially in the second half, while in the mainstream channels has clearly emerged the trend to more differentiated and high-fashioned suits, the other strong trend to the opposite direction has appeared and formed a dramatic

[15]There seems to be a widely held view (in our view, a misunderstanding. See, for example, Miwa and Nishimura[1991]) that Japanese distribution systems in many fields are quite traditional and do not change at all. However, for these 30-40 years, there have been several waves of chain-stores booms, at the centre of which are that of GMSs, convenience stores and first food restaurants. Recently, there is a new wave of chain stores for specialized products, sometimes called "category killer", such as shoes, daily necessities, electric appliances, childs' wears, and our road-side chain stores for mens' suits are one of the most remarkable example.

shape, which have found the strong and vast demands for the "basic" suits, especially as working uniforms. Therefore, what happened in the second half of 1980s' is the separation or split of men's suits markets into two (polar) subcategories, which reflect the two aspects of the demands for men's suits mentioned in [1-3].

The reason why only the first trend has gathered wide attention is quite simple. The members within the mainstream channels, especially core members such as big apparel makers and large department stores,

eagerly pursued the first trend and high-fashioned and high-priced suits are by far more impressive than "basic" low-priced ones.

Newly born and explosively developping chain stores, called "road side chains", have found or made and pursued the second trend. Under their channel leaderships gathered apparel makers, trading companies and weavers, most of whom are not in the mainstream channels. Therefore, the process of spliting into two subcategories have accompanied the profound reorganization of the whole of the supply sides.

As was mentioned in [2-1], "road side" chain stores have risen their sales shares in these several years, and in 1990 they occupied 30-35% of the market in volume weight[16]. Among them, the biggest chains, for example, top 5 or top 10, are increasing their market shares. Table 4 shows the number of stores in each of these 6 years of top 5 chains and the biggest chain, i.e. Aoyama. Here, top 5 includes Aoyama, Aoki, Haruyama, Konaka and Xebio.

[16]There is another view which suggests that their total share is "just below 50%".

Table 4. The Number of Stores of the Biggest 5 Chain Stores at the End of March, Each Year

Year	1986	1987	1988	1989	1990	1991
Total of the Biggest 5 Chains	240	327	434	572	712	883
The Biggest Chain :Aoyama	73	98	127	161	211	277

Sources: Senken Shimbun

Those 5 chains increased the number of stores from 240 to 883 in these 5 years, 3.7 times larger, and sales from 79 billion yen to nearly 290 billion yen, 3.7 times larger. At the same time, Aoyama increased the number of stores, 3.8 times and sales 3.7 times.

Aoyama has 277 stores at the end of March 1991. For the year ending in March 1991, his total sales was 87 billion yen, and his profit before tax is 21.6 billion yen, therefore the ratio of profit before tax to sales amounts to almost 25%. Men's heavy garments, including men's suits, coats and jackets occupy about 70% of their total sales[17].

The rough image of their typical store is as follows. Location is on the side of main roads in the suburbs of cities. Their in-shop area is 400-500m^2[18], where displayed 1,000-1,500 sets of suits, with 5 or 6 salesmen including the shop master. The average price of suits they sell is between 20,000 and

[17]Corresponding figures at the end of March 1992 are 362 stores, 117 billion yen, 27 billion yen, 23.1% and 75%.

[18]This definite figure, below 500m^2, is said to be due to Daiten-Ho (Large Scale Retail Store Law), and with the amendment of the law in 1992 the average size of newly built shops are becoming larger.

40,000[19], and is now rising as they are trying to expand their targets to consumers of higher grade.

The pruchasing costs of the suit selling at the price of 40,000 yen is around 15,000 yen, just below 40% of their retail price.

Let us remember the price/cost structure of the suits selling in the department stores mentioned in [2-3] and compare with the figures listed above. The retail price 40,000 corresponds to 75,000-80,000, and purchasing costs of 15,000 to the figure between 20,000-25,000 and 45,000-50,000, as some of (or most of) the functions of apparel makers in the department store channel is performed by the head offices of chain stores in this newly developping channels.

Almost certainly 80,000 yen suits in the deparment stores and 40,000 yen suits in the chain stores are not the same, and the costs of intimate and delicate selling activities in the former is much higher than that of simpler one in the latter. However, as the costs for the material textile do not cause the major difference (in this case, at most 1,000 yen), most of this difference of 40,000 yen comes from garment manufacturing and distribution process.

The important point we should take notice is that the profits/sales ratio of chain stores is much higher than that of mainstream channel members, such as big apparel makers and large department stores, which suggests that the much higher prices in the mainstream channels are not the results of the exercises of

[19]There is a wide varieties of policies among those chains. On the one extreme is a chainstore with the average price above 35,000 yen, on the other extreme is a chainstore more than half of whose sales volume is sold through 2 sets of suits for 29,800 yen method.

the monopoly power of the established firms. Let us take the two leading chains, Aoyama and Aoki, for examples. The ratio of profits before tax to sales of each in the year ending March in 1991, is 24.7 % and 16.8% respectively, and gross margin to sales is 51.8% and 49.2%[20]. The levels of these figures have risen rapidly in these years.

[3-2] The Causes of the Lower Prices

There are a wide variety of opinions about the causes of the lower prices of these chain stores, therefore their rapid growth. The following 4 points are quite simple but common in most opinions[21].

(1) They share and bear actively the risks incidental to fashion business.

(2) They specialize in the "basic" subcategory of the suits market, which decreases the risks they should bear and makes possible their activities with long-run plans.

(3) They offer their purchase orders to apparel makers and garment factories with long-run plans and long lead-time for

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[20]These figures are from Senken-Shimbun. Corresponding figures of leading department stores are 33%(Takashimaya), 32.2%(Isetan), 31.7%(Mitsukoshi) and 31.5%(Hankyu), although these figures are for the whole of cloth sales.

[21]In addition to these points, the recent development of computer and communication systems and their application to production and distribution activities have strongly favorable impacts for these chain stores and chain stores in general. For the impacts of "Joho-Ka(Computerization)" in distribution, see Miwa[1991].

delivery (planned orders), which, by averaging the activity level of the plants, make possible the manufactures' costs lower[22].

(4) They offer their purchase orders in large lots sizes, which make possible the realization of the economies of scale in the garment factories[23][24].

They found vast amount of and strong demands for "basic" suits as working uniforms and have specialized in supplying them, and by this specialization, it has become possible for them to bear the risks and offer purchase orders with long-run plans and long lead-time in a large lot size[25].In the process have emerged a group of suppliers who are ready to cooperate with those chains. They reorganize and expand their capacities and accumulate production know-how, which again lower their supply costs[26].

The explosive growth of "road side" chain stores has given strong impacts on the surrounding firms and sectors, which can most clearly be seen at the retail stage. The most direct shocks have been to GMSs and local department stores, where the spaces to display and sell men's suits are disappearing rapidly. Also

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[22]Thus, they can use off-peak plant capacities.

[23]One of the president of the leading chains says, "we need at least 140 stores, because in order to realize the economies of scale minimum production lot should be 1,400 sets and, supposing 10 sets for each store we need 140 stores." At present 6 biggest chains reach this level.

[24]In fact, among top 5 or top 10 chain stores, there is a clear positive correlation between sales volume and the ratio of profits before tax to sales.

[25]What will happen when supplyers following the differentiated market mentioned in section 2 try the same behaviours?

[26]Most of big apparel makers in the mainstream channels are located in Tokyo and Osaka. At least to the present, apparel makers actively supplying to those chains are mainly in Aichi and Gifu, who have not been in those mainstream channels.

big chain stores for men's products[27], who had flourished eapecially in 1970s' (the biggest name is Taka-Q who has more than 300 stores), have been affected profoundly.

Even in large department stores, when we look at them closer, we can find their impacts, at least the beginning of their profound impacts. The distribution of the prices of suits in their floor is bimodal, and their suits collection should be regarded as the mix of two sub-groups of different characters. The center price of the lower price sub-group is between 60,000 and 70,000 yen, and it is this sub-group that is facing the keen competition with "road side" chain stores[28].

[3-3] "Road Side" Chain Stores and Production Shifts Abroad

It is a difficult, and almost impossible, task, and this is not the
place, to answer the following questions[29].

(i) To where this spliting trend of the suits market will go and when it will cease ?

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[27]In contrast to "road side" chain stores, most of their stores are in the downtown, typically in the shopping buildings around the (terminal) stations of railways, therefore average shop size is 100m^2.

[28]An industry spokesman comments that the quality of 60,000 yen suit in the department store is just the same as 40,000 yen suit in road side stores.

[29]However, our forecast for these questions are as follows.
(i) Even though, in 1991-92, with "the bursting out of bubbles", the demand for high price mens' suits have decreased sharply, this splitting trend is quite strong in character and will continue also in 1990s'.
(ii)As the Table 2 suggested, the total volume of sales (keep in mind that the import ratio is still very low and production volume is not much different from sales volume) of mens suits have not increased very much in these 5 years (The previous production peak was in 1975, whose level was surpassed only in 1989).
This past suggests, those chain stores are not creating new market, and are depriving already existing retailers of the market: As their total market share in volume weight already is above 40%, their total share seems to be approaching gradually the ceiling. The price elasticity of demand for mens' suits appears not to be very high. Their remarkable growth path will soon be on the different stage.

(ii) When and where this explosive growth of "road side" chain stores will stop, and then what will happen ?

The important point we should take notice is that there is a great possibility of shifts abroad of production activities in large-scale.

So far we recognize suits market as highly differentiated one, and see for example Melbo as one of the center players symbolizing the main trend, this possibility appears to be negligible, at least in the near future. However, as for the sub-market "road side" chain stores have found and cultivated, there appears to be a great possibility of shifting abroad the garment factories for their suits production, and even the factories for textile production. The reasons are the following 5.

(1) Long lead-time for delivery reduces the importance of distance (therefore transportation costs) between consumers and production points.

(2) With the planned orders, they can reduce the risks incidental to the long distance from the consumption points and their isolated location.

(3) With the large lot size of the purchasing orders, they can make the factory operations simpler. Also they can reduce the amount of informations per production volume, (and thus by reducing the communication costs they can reduce the importance of the barriers.)

(4) Because of the labour shortage and high and still rising labour costs in Japan, the shifts of plants to abroad (for example, to China) will become much more advantageous[30].

(5) The now on-going process of mechanization and automation of production process reduces the importance of the skills of workers, and make easier the shifts of factories even to greenfields[31].

Possibly the process will begin with the shifts of garment factories in a small scale, where at first will be made simple jackets and trousers, and then with the accumulation of labour skills will begin the production of suits. Next step will be the expansion of factories, and then they will try to build factories for textiles for their own use. As the costs to send technical personnel from Japan are very high, they will try to reduce the number of them.

At present, the above story or scinario may appear only to be a mere conjecture and the majority of opinions will not accept as a possible story for the near future. However, depending on the preceding analysis, we evaluate the possibility of large-scale shift abroad very high and the shifts will realize in these 10 years.

[4] A Short Comparison with the Case of Knitwears

[30]Already the process has begun, although their scales are still very small.

[31]It is not too much to say that in such plants skilled works with technical know-how are needed not in the production process, but in the design and control of the production process and the inspection process of the products.

In this section we will try to test the applicability of the conclusions drawn above by applying them to the case of knitwears, especially wool sweaters, and reach the conclusion suggesting their generalizability. Mens' suits are one of the representative products which use worsted yarn, and knitwears, eapecially wool sweaters, are one of the representative products made of woollen yarn.

Here we observe that the two factors which play the key roles in shaping the supply side of mens' suits market also play the key roles in knitwears market, but in a different manner.

The first factor is the character of demands and the distribution system conditioned by it. Also in this market in 1980' we observed the splitting of the market into two submarkets, that is, "basics"[32] and differentiated, high-quality and high-priced products. Although we also observed in the second half of this period the explosion of demands for the latter, their relative share in this market is still not so high that most of the demands, especially in volume weights, are for basics and the distribution channels for them are the ones in the mainstream. Therefore, in this case, the dominant position of the end of the mainstream distribution channels is occupied by GMSs,

[32]Managers in the central office of one of the biggest GMSs suggest that what we call "basics" is quite different for the following 3 reasons from "basics" of American GMSs and mail order houses. (1) Americans are more price conscious and not so quality conscious, therefore there is the tendency that they order on the spot base to cut purchasing prices, which sometimes sacrifice the stability of quality of the products. (2) The size of order lots differs widely, the suggested minimum lot for this chain stores with more than 100 big stores is 1,000 pieces for one item and 100 times larger for Americans. This difference not only reflects the difference of the number of stores in each chain but also the difference of the character of demands for basics in each country. Japanese "basics" in this market is more differentiated than American ones, and actually in Japan we cannot find almost no "basic" items which sell for several years. (3) The role of the merchandisers and the focus of merchandising is therefore also widely different. In Japan, "basics" is the collection of such diverse products and requires such a long lead-time(the suggested lead-time between order and delivery is one year in the case of sweaters) that the efficacy of merchandisers' forecasts for each item at the time of orders has critical importance.

General Merchandising Stores, such as Daiei, Itoh-Yokado, Seiyu, not department stores as in the case of mens' suits.

Second factor is the character of technology in production and their transferablity, which is regarded in the case of the mens' suits as the determinant of the location of production capacities and the division of works among them. In the supply-side of the knitwear market we cannot find any kind of technological factors which strongly restrict the location of production capacities, especially ones overseas. More precisely, (i) there is no such strong technological interdependence among different stages of production nor such centripetal force as has the deying stage in the case of mens' suits that there is no economies of accumulation and cannot find such accumulated production area called san-chi as is found in the case of mens' suits. (ii) The equipments for their production, especially knitting machines, are supplied in the open market by specialized machine manufacturers, and anybody can purchase on the spot base even the newest computer controlled machines[33].

As the two key factors plays their roles in knitwears market in a manner quite different from that in mens' suits market, the import of knitwears has increased tremendously and their import ratio has become quite high[34]. Here we report, from the hearing from the managers in the central buying office of one of the

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[33]The need for skilled labours also is much weaker in this field than in the case of mens' suits, and production capacities can be built without so much toruble even in hot coutries where people do not wear wool products. See [1.3].

[34]Although the production technology for the differentiated knitwears has the same character as "basics", the need for "quick-response" plays and important role also in this market and restricts their location.

biggest GMS chain in Japan, what has happened and what is happenning now in this market.

They began to sell imported knitwears in their stores around 1972, at the first stage of Yen appreciation after "Nixon Shock" in August 1971. After the process of gradual increase, they experienced the dramatic increase of imports since 1985, and now 90% of knitwears they sell are from abroad[35].

Their purchasing methods from abroad can be classified into two types. Formerly their weights were almost even, however, at the present the first type is dominant.

(1) They purchase from apparel-makers and wholesalers, including trading companies.

(2) They order directly to overseas firms and factories, which is vertically more integrated.

The advantage of the first type is their low supplying costs because of their larger size of order lots, which can be attained by selling openly, not restricted to only one chainstores. The advantage of the second type comes from the fact that they can restrict their selling outlets only to their chainstores, and they use this type as one of the weapons to differentiate their stores from others. So their is a tradeoff between low costs and the efficacy as the weapons for differentiation. Recent trend to demand higher quality and differentiation even in basics market has made the size of order lots samller and supplying costs higher, which, in our view, has made the weight of the first type higher.

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[35]We should pay attention to the definition of "imports", as production process usually does not complete within one area and "imports" means only that the final production stage is not in Japan. For example, large portion of yarn used in China for exports is from outside, some from Japan.

Actually the difference between those two types comes from that of division of works among firms within production-distribution channels, and even in the second type case GMSs by themselves do not play directly the roles played by apparel makers and wholesalers in the first type case. In this case the GMSs chain cooperates with around 80 apparel makers mainly in Ichinomiya and Gifu, some of them works only as procuct planners.

At present, imports are mainly from China and Korea and, as we mentioned before, the location of yarn production is not always the same as that of knitting activities.

We argued that in the mens' suits market we are at the beginning of the overseas production. In this knitwears market we have already reached some stable state, where there is a clear line which divides the works for abroad and the works in Japan. The following three points characterise this division[36].

(1) They do not trade on a spot base. First of all, they check the quality of the production process of factories and choose some of them as their trading partners. They almost always prefer stable relationships and give technical advices and assitance if necessary, however, they put an end to the relationships when they judge[37] the quality of the partner below their requirement level[3839].

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[36]Although those charecterizations are drawn from the hearings from GMSs managers, in my view, the same is true for apparel makers in the first type purchasing method.

[37]To watch and check the quality level of their partners, they send their technical supervisors twice a year to each factory

[38]They say that their requirement level is higher than that required by their domestic customers and American GMSs.

[39]At present they trade directly with about 100 overseas factories.

(2) They do not commit to trade partners in such manners as establishing joint ventures, lending their own production equipments, nor they build their own factories. Also, they keep in mind not the sales-share of the factories to them to be so high that they depend too much on them.

(3) Before making their orders for each item, they check the quality of products carefully on a sample base. When delivered, they check on the spot via sampling inspection only size and weight of the products, and detailed check and care of spots, stains and stitch defects are carried out in Japan[40].

[5] Concluding Remarks

While the Japanese import ratio of textile products in total has risen amazingly, the dominant view asserts that the import ratio of wool products, especially that of worsted yarn products, will not attain much higher value in the near future.

In this paper, emphasizing the market trends which have emerged clearly especially in the second half of 1980s, we assert that the dominant view should be reexamined and possibly changed to another one, saying that there is a great possibility of large-scale overseas shifts of production capacities in the near future.

We drew the above conclusion, by confining our attention to men's suits only, with a short comparison with the case of

[40]According to thier explanation, this division of works reflects some kind of difference in cultural factors. It is also important that they can find at present the labour force for these works.

knitwears, and the following questions are the tasks for future studies.

(1) What are the further applicabilities of the above conclusion to the other subcategories of wool products.

(2) To where the factories will shift and what are the determining factors ?

(3) What will be the scale and speed of the shifts ?

(4) What will happen in the transition process and what kind of policy problems will appear ?

(5) This shifts will change the relative price structures of not only men's suits but also men's outerwears in general. What kind of influences will these changes cause on the demand side ?

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