



Keio Business School

Focal Point and Corporate Culture II:

Walmart Retreated from Japan's Market after Struggling to Match its Operations

Abstract

The case material “Focal Point and Corporate Culture I: Sharing Behavioral Principles as Nash Equilibria (KBS case 91-21-3224)” explained, providing practical examples, how a focal point functions in coordinating individual behaviors that conflict in corporate organizations and how it is created and maintained by a corporate culture there from the viewpoint of game theory. This material intends to provide the readers with an exercise for analyzing a practical issue by applying some notions explained in that case material. We consider the attempts that were made to introduce an external corporate culture into operations of a Japanese retailer. In December 2005, Seiyu became a Walmart subsidiary. In November 2020, however, Walmart announced that it would be reducing its ownership of Seiyu to just a 15% stake. Was the corporate philosophy of Walmart, summarized as a motto of Everyday Low Price, sufficiently mature to accommodate a corporate culture in Seiyu? Was this corporate culture successfully adapted to the business environment in Japan? This material collects and summarizes some of the relevant resources available on websites as of February 2021 (some articles on those websites were deleted as of August 2021), and then it poses questions for classroom discussion.

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1 Introduction

Walmart, the world's largest retailer, bases its corporate philosophy on its motto of "Everyday Low Prices (EDLP)" and has cultivated a corporate culture dedicated to pursuing low prices in every sector of the business.^[1] Walmart, which achieves low prices through cost-cutting in comprehensive logistics management, grew enormously over the two decades of the 1980s and 1990s; thereafter, in response to diversifying customer needs accompanying the expansion of its business, the company attempted to switch to a new corporate culture described as "a new set of values emphasizing connections to customers where they are."

Under this new value system adopted in the 2000s, operations for Walmart employees expanded beyond simply selling merchandise at low prices, and some conflicts arose between the new philosophy and the corporate culture that preceded it. These facts provide a lesson that it is difficult to transform corporate cultures in response to business environments simply by stating corporate philosophies and the visions of executives.

In December 2005, Seiyu became a Walmart subsidiary. The website of Seiyu (Walmart Japan) was updated to feature a version of Walmart's slogan "Saving people money so they can live better" and included discussions of the day-to-day operations of employees (in Japanese, accessed January 25, 2021). In November 2020, however, Walmart announced that it would sell most of its Seiyu stock to KKR and Rakuten, reducing its ownership stake to just 15%. In this material, let us consider the following two questions in reference to the contents of this case material and other relevant articles. See the Appendix for concise explanations of focal point and corporate culture.

Questions

- (1) Considering the day-to-day operations of Seiyu employees, what sorts of behavioral principles, and in what situations, were shared in common among all employees? Predict what sorts of scenarios might unfold if these behavior principles were *not* shared in common among employees?
- (2) Was the corporate philosophy of Seiyu (Walmart Japan) sufficiently mature to accommodate a corporate culture containing the functions described in the main portion of this material? Was this corporate culture successfully adapted to the business environment in Japan?

^[1] This corporate philosophy is sometimes contrasted with the case of Nordstrom, whose corporate philosophy is based on customer satisfaction.

The remainder of this material is organized as follows. We first refer to the insights that may be gleaned from decisions regarding store locations, and then address a number of points regarding Seiyu's corporate culture: awards given to recognize employee actions, the fusing of operations with pricing decisions in EDLP scenarios, and the extent to which executives appreciated these factors. Next, we address the availability of financial information. Finally, we briefly refer to an interview conducted in September 2020 with Seiyu President and CEO Lionel Desclée. The Appendix provides a concise explanation of focal point and corporate culture.^[2] The website of Seiyu (Walmart Japan) was accessible at <https://www.walmartjapaneseiyu.com> on January 25 in 2021 but it was currently deleted. Thus, this material serves also as notes of those deleted articles on the website.

2 Store Locations and Consumer Behavior

The following note is an abridged and rearranged version of an article titled "Did Walmart's breakup with Seiyu come too late?" (written in Japanese) issued in *ITmedia Business Online* on December 24, 2020.^[3] A unique feature of this article is author Akihito Nakai's discussion of how corporate fortunes are tied to the evolution of motorization in postwar Japan. Nakai does not emphasize the specialized nature of the Japanese market (involving the presence of wholesalers and a unique framework that governs processing and distribution of fresh foods), despite the fact that the unique challenges of doing business in Japan evidently sufficed to prevent even a global-scale retailer such as Walmart from making significant inroads.^[4] The central thesis of the article is that the original source of Seiyu's troubles, which continued even after the acquisition by Walmart, dates back to the early days of the Japanese supermarket industry in the 1960s, when supermarkets chose locations for stores amidst a rapid growth of transportation networks in the Tokyo metropolitan area.

- Seiyu's sales were kept afloat by stores near train stations in the central Tokyo area.
 - 1960s: Japanese motorization was still a work in progress. Seiyu was able to lock down prime locations for stores near train stations.
 - 1970s and 1980s: Seiyu's business grew, but the progress of motorization in Japan spurred a gradual decline in foot traffic to shopping areas near train stations in smaller cities and rural areas.
 - 1990s: Seiyu was the third-largest player in the industry, behind Daiei and Ito-Yokado, but the slowdown in consumption following the collapse of Japan's economic bubble put Seiyu's sales on a downward trajectory.

* In 2005, Walmart's purchase of Seiyu was completed.

^[2] See another case material "Focal Point and Corporate Culture I: Sharing Behavioral Principles as Nash Equilibria (KBS case 91-21-3224)" for the precise definitions and detail explanations of focal point and corporate culture.

^[3] <https://www.itmedia.co.jp/business/articles/2012/24/news024.html> (in Japanese, accessed February 15, 2021)

^[4] Note that the French and British retail giants Carrefour and Tesco had previously withdrawn from the Japanese market, in 2005 and 2013, respectively, thus lending credence to the notion of Japanese uniqueness.

– 2000s: The financial crisis triggered by the subprime-loan debacle led to a further worsening in business performance.

* Daiei went bankrupt and became a wholly owned subsidiary of Aeon in 2015.

- There were few competitors vying for the most prime retail locations: those on expensive parcels of land near train stations in the Tokyo area. This was due not so much to active support from consumers as to a simple lack of other options.

– Regional supermarkets engaged in bitter competition over stores in suburbs and remote cities.

- Perhaps there was little understanding of the unique nature of the Tokyo area and the extensive rail network serving it?

10 ● Even in 2020, despite the continuing growth of the online marketplace, brick-and-mortar stores commanded an overwhelming share of the market for fresh food. Perhaps Rakuten's purchase of Seiyu stock was motivated by Rakuten's understanding of the importance of data sources that can lend insight into consumer behavior overall?

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Notes for Section 2

(1) In view of the fact that brick-and-mortar stores command an overwhelmingly larger share of the fresh-food market than online stores, it is difficult to see Seiyu's delay in addressing the online marketplace as a major source of its problems.

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(2) In view of the solid base of sales at stores in the Tokyo area, the firm may not have offered sufficiently many incentives and enticements for the purpose of understanding consumer behavior.

- It is not the case that the firm measured the strength of incentives or computed theoretical values. Instead, Seiyu's website offered awards for employee behavior, as we will survey in Section 2.

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(3) The intense competition between regional supermarkets in suburbs and smaller cities indicates that the prices offered to customers there were not exclusively low. (The choices of location for the stores identified by Nakai is surely related to this point.)

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- As we have not conducted any market surveys, we don't have access to any detailed content or conclusive evidence, but the fact that Seiyu's sales in places like Kyushu were inferior to those of multiple other retail chains competing regionally is relatively well known.

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- In Japan, publicly listed corporations are required to include itemized breakdowns of performance for individual corporate segments on financial disclosure statements. However, Seiyu was not publicly listed in fiscal year 2020, and thus, as long as Seiyu does not choose voluntarily to disclose details of its balance sheets, financial data for the Tokyo area and for other regions will not be made public. We will revisit this point in Section 6.

3 Motivating Employees

Walmart refers to all employees, which include full-time employees, part-time employees, and executives, as *associates*, used in the sense of friends working together toward common goals. Seiyu defined a set of corporate values — *Do everything in your power to serve customers, Treat all persons with respect, Always aim for the top, and Act ethically* — and presented awards to employees in accordance with these values. The MVP awards for fiscal year 2019 were as follows.^[5]

- **Members of the Sendai Center Moving Team^[6]** : With no pause or interruption in the day-to-day operations of the logistics center, whose mission is to deliver merchandise to stores without delay, this team moved some 30,000 items (corresponding to the payloads of 30 large trucks), including stock merchandise, storage containers, and tools, from the old center to the new center. Beginning their work a full 2 weeks before the date of the move, the team carefully adjusted their work schedules, worked out all details of agreements with partners, and took the initiative to distribute information sheets to individual truck drivers, drawing attention to the importance of avoiding erroneous deliveries to the old center. (Values exemplified: Treat all persons with respect; Always aim for the top.)
- **Members of the Sales-Tax Project^[7]** : In anticipation of the sales-tax increase of October 2019, this project began 1 year in advance to prepare system revisions based on difficulties that arose from the previous increase, in April 2014. The project provided comprehensive explanations of reduced tax-rate frameworks and other topics to Walmart’s development team and worked together with that team to ensure that core systems were completed 3 months before the tax-rate increase. Then the project worked to update 45 related systems (stores, headquarters, logistics centers, and subsidiaries).^[8] The project also twice conducted rehearsals at stores, enabling crossover to manual operation in the event of shortages. (Values exemplified: Always aim for the top.)
- **District 12: Awasa store (Associate Nagano)^[9]** : In October 2019, the Awasa store suffered typhoon damage but reopened for business just 3 days later. When the Chikuma River flooded late on the night of October 12, the store lost electric power and was inundated by water at levels in excess of 30 cm. However, in addition to an early-morning start to the work of mud removal, emails requesting assistance were sent out to the entire Nagano area, resulting in a 45-member recovery team including personnel from headquarters. The rapidity of this crisis response was made possible

^[5] <https://www.walmartjapanseiyu.com/our-story/our-associate-story> (currently deleted, accessed February 17, 2021). This content may also be viewed in video form on YouTube.) Awards for fiscal year 2020 had not yet been posted to Seiyu’s website as of February 17, 2021.

^[6] https://www.youtube.com/watch?v=7UEGpQest6U&feature=emb_logo (in Japanese)

^[7] https://www.youtube.com/watch?v=Lfh_SkbXoQ&feature=emb_logo (in Japanese)

^[8] Store systems were controlled by Walmart. For headquarters and logistics centers, Walmart’s systems were interconnected with Seiyu’s. Subsidiary systems were managed by Seiyu.

^[9] https://www.youtube.com/watch?v=FoYuwgol04s&feature=emb_logo (in Japanese)

by the shared awareness of associates that their work helped to support the lifestyles of local residents. (Value exemplified: Do everything in your power to serve customers.)

- **District 8: Ms Abe (Abe-san), Fuchu Yotsuya Store** ^[10] : Abe-san, who began working at the customer information desk in October 2019, went out of his way to engage customers in conversation, paid careful attention to customers' behavior and the motion of their line of sight, and gathered useful tidbits of information from chance conversations; at the end of each day, he prepared a memo summarizing a few of his most interesting findings and reported them to the store manager. His memos eventually came to be posted in offices throughout the store, their content shared with other associates; this not only led to improvements in the way things were done in the store but also generated positive feedback from customers, thus becoming a source of encouragement for associates. Examples of workflow improvements stemming from Abe's work include the following: more efficient positioning of checkout registers forelectronic payments, installation of guard rails to prevent purchased items from falling off packing stations, and distribution of maps of the store interior. (Values exemplified: Do everything in your power to serve customers; Always aim for the top.)

The MVP awards for fiscal year 2018 may be summarized as follows.

- **Sango Center Shipping Team** (no YouTube video): Achieved a significant reduction in erroneous deliveries, a common problem afflicting all logistics centers.
- **Ms. Tanaka (Tanaka-san), Store Support Center** ^[11] : The Foreign Corrupt Practices Act, an American audit criterion, requires Walmart to implement strict protections against corruption even in overseas subsidiaries. As a part of this effort, in 2018 Seiyu revised processes for petty-cash payments at its stores, switching to electronic bank transfers from the company except for the categories of “unanticipated small-amount payments” and “payments that can only be made in cash.” As a result, 2018 had less than half as many petty-cash payments at stores as 2014.
- **Fresh produce team, Shimosa-Nakayama Store** ^[12] : To keep store displays in a state of freshness at all times (the *freshness standard*), stores located near the city of Funabashi displayed photographs of various store departments; the Shimosa-Nakayama store was to take pictures of its fresh produce department. The team established a goal of meeting customers' needs by preparing and displaying certain dishes by 9 a.m.; to meet this goal, the team revisited their traditional workflow, in which products would appear for sale around midday, and adjusted production volumes for individual products. As a result, morning sales increased.

^[10] https://www.youtube.com/watch?v=GRAevuXxVhQ&feature=emb_logo (in Japanese)

^[11] https://www.youtube.com/watch?v=3c2BIXo6pVw&feature=emb_logo (in Japanese)

^[12] https://www.youtube.com/watch?v=mKkKGLgNcjk&feature=emb_logo (in Japanese)

- **Seafood team, Nakano Store**^[13]: The seafood department established detailed minute-by-minute workflows, carefully considering all procedures, from how bags were to be opened to how fish were to be sliced, in order to increase operating efficiency. As a test of their success, the team promoted multitasking throughout the store by learning the workflows of other departments and offering their assistance to these departments; this helped to reduce overtime and keep personnel costs for the store overall within budgets.

Notes for Section 3

(1) Many of the associate initiatives recognized by awards in 2018 and 2019 were related to streamlining operations. While the company provided incentives to stimulate such efforts, the discussion calls to mind one of the questions posed at the end of Section 2: Perhaps Seiyu failed to provide sufficient motivation or incentives to lend insight into consumer behavior?

- Among multiple Nash equilibria, the corporate culture represented by EDLP surely establishes focal points to achieve a certain equilibrium, but it is not clear that this equilibrium is the most desirable one for Seiyu. (See the Appendix for an explanation of Nash equilibrium and focal-point.) For focal points that were not actually established, what sorts of things might have happened? These points need to be assessed on the basis of counterfactual scenarios.

(2) Did Seiyu's practice of competing only on price make it easy for competing firms to devise counterstrategies to Seiyu as a rival?

- For example, assuming the existence of some number of latent customers who derive pleasure from scanning flyers and Internet advertisements for information on special sale items at multiple supermarkets and purchasing those items on sale days, the competition between EDLP-adopting supermarkets and their rivals takes on a rather complicated appearance (requiring insights from **game theory**^[14]).

- Even on the pricing side, a (Japanese-language) article in the August 7, 2018 edition of *Business Journal* titled "Low prices are Seiyu's selling point, but an investigation reveals other supermarkets have lower prices" noted that Seiyu's prices for merchandise items, while sufficiently low for typical consumers, are not always lower than prices for the same items at nearby rival stores.^[15] (This article compares Seiyu's merchandise prices to those of the large food retail chain OK; note that OK has also adopted EDLP as its pricing strategy.)

^[13] https://www.youtube.com/watch?v=ucisynq-fz0&feature=emb_logo (in Japanese)

^[14] The field that uses game theory to study consumer behavior and corporate competition incorporating specialized choices is known as behavioral industrial organization. The methodology of this field is the same as that of the field of industrial organization after the introduction of game-theoretical analysis in the 1980s, but behavioral industrial organization has become known to many researchers over the past 10 years due to the growth of behavioral economics since around the year 2000.

^[15] <https://topics.smt.docomo.ne.jp/article/bizjournal/business/bizjournal-bj-46319> (in Japanese, accessed February 17, 2020)

(3) Cost reduction and operational efficiency are essential for successful implementations of EDLP, and it is important to make associates aware of these imperatives. (Walmart uses the term *everyday low cost* (EDLC) to refer to its philosophy of encouraging initiatives like these.)

- So how did operational efficiencies relate to Seiyu's EDLP? We will summarize answers to this question in Section 4.

4 Marketing and Operations for the EDLP

A significant portion of the existing literature on product pricing strategies is devoted to the question of whether to adopt *Hi-Lo* pricing, in which products are offered at low prices only during special sales events of limited duration, or the alternative strategy of *everyday low pricing* (EDLP). In Japan, it is assumed that many supermarkets choose the Hi-Lo approach. In Hi-Lo pricing schemes, profitability is heavily dependent on factors such as rebates from business partners, that is, product manufacturers, and revenue from sales promotions; consequently, contractual agreements tend to be complicated. In EDLP scenarios, on the other hand, contracts are simple, but retailers are put into a position of having to constantly beg manufacturers for price reductions.

It has been reported that supermarkets attempting to switch from Hi-Lo to EDLP pricing encounter a host of difficult problems. However, Noda (2019) cites the trajectory of Seiyu as an example of a successful implementation of this switch, concluding that the unification of operations with price setting under EDLP was the lynchpin of the success. Before proceeding to operations under EDLP, let's first consider whether such difficulties will arise in conjunction with the transition from Hi-Lo to EDLP.

- Business success under EDLP requires supply-chain restructuring, largescale purchasing of merchandise, and an IT infrastructure for centralized control of such matters, and is thus difficult to achieve for medium-sized and smaller businesses. (Success may become more likely with acquisitions or enlargement of a corporation's scale.)
- Conducting price-setting tests for Dominick's Finer Foods, a mediumsized chain of food stores in Chicago, Hoch et al. (1994) reported that switching from Hi-Lo to EDLP failed to achieve significant shortterm improvements in sales, with reduced prices worsening gross profit ratios.
- Ellickson et al. (2012) reported on the magnitude and nature of switching costs required to change pricing policy from Hi-Lo to EDLP.
- EDLP is difficult to implement without reducing procurement expenses and general sales and administrative costs.

Despite the identification of these difficulties, EDLP was adopted not only by Seiyu but also by fellow industry players such as OK and Beisia, and these medium-sized and small businesses transitioned to EDLP in practice. Noda (2019), comparing Seiyu's performance for 2011 to that for 2008, the year it became a wholly owned subsidiary of Walmart, reported major improvement in operating profits due to cost reductions that significantly more than compensated for the reduction in gross profits associated with EDLP price reductions. Noda attributed this success to the relationship between operations and price setting under EDLP, which he summarized as follows.^[16]

- Price changes were restricted, reducing the sorts of sudden discontinuous events that obstruct the smooth execution of operations. Streamlined operations allow associated processes to be simplified and standardized.
- Interviews with Seiyu revealed that, in the 3 years following 2008, the company greatly reduced costs associated with sales management and similar tasks by mimicking the highly productive "lean operation" paradigm of the Toyota Production System to design a smooth flow of operations without jitter or snags. (Labor productivity increased approximately 20% each year.) As sales increased by less than 3% over the 3 years following 2008, we can say that Seiyu's major cost reductions succeeded in increasing operating profits despite reduced prices.

Notes for Section 4

- (1) In Section 3, we gave examples of associate initiatives that were recognized by rewards; many of these inspire one to ask how the streamlining of operations was achieved under EDLP. Increased efficiency of operations also became the foundation for achieving "everyday low prices."
- (2) Seiyu's financial situation appeared significantly improved by 2011. So why did Walmart withdraw from the Japanese market? Was Walmart unable to recover its investments in IT and other areas despite the improved financial picture? In Section 6, we will cover some of the basic knowledge needed to investigate this point. However, before that, we pause to consider how Seiyu's upper management assessed Walmart's information systems and their centralized control of operations.

^[16] Noda (2019) computed changes in sales volume and operating profit based on Seiyu financial disclosures for 2007, annual reports for Walmart, Inc., newspaper and magazine articles, and interviews with Seiyu personnel..

5 Walmart's Strengths, as Seen by Seiyu

The following is an abridged version of an interview with Senior Vice President (at the time) Hirabayashi that was published in *Nikkei Business* on April 25, 2016; we have attempted to summarize the essential content of the interview while preserving the original wording as much as possible. The interview offers insight into Hirabayashi's understanding of Walmart's information systems.^[17]

- The degree to which Walmart's information systems are *consistent* with Walmart's business model is really quite amazing. Walmart's basic policy is EDLP, and achieving that objective requires EDLC. The business model that realizes this policy is item-by-item control of logistics and merchandise.
- Merchandise proceeds from transaction partners to logistics centers and from logistics centers to stores. Naturally, we control these shipments, but that's just the tip of the iceberg; we also consider many other issues, such as in what state shipped merchandise will be received, how items should be loaded onto carts at logistics centers, how items should be stored, and, if the items are going to be placed on store shelves, how *many* items will be arranged on each shelf. We ask questions about all of these issues— and more—for all of our merchandise, and we keep track of the answers for each individual item. These are the types of merchandise controls that information systems need to support.
- In the case of Seiyu, although we have been enthusiastic users of information systems for a very long time, the most important thing for us has always been *sales*. We put a lot of effort into understanding the sales environments at our stores. In some sense, that was everything for us.
- To ensure that your information systems are consistent with your business model, you really need to consider things like the scale of the system in which you store your data, the security of the data, and the security of your data centers and other facilities; you need to study all of these issues inside and out, and then you need to take decisive action in advance.

Notes for Section 5

- We learned that Walmart's data systems for merchandise controls are extremely powerful, but not much was said about how these systems might be related to the consumption patterns of customers.

^[17] <https://business.nikkei.com/atcl/interview/15/233055/041900005/> (in Japanese, accessed February 17, 2021)

6 Financial Disclosures

Since becoming a fully owned subsidiary of Walmart in 2008, Seiyu has not been listed on any stock exchange. For this reason, its disclosures of financial information are limited.^[18] Indeed, a search of EDINET, a browsable database for securities reports and similar documents (in Japanese), yields no securities reports for Seiyu (as of February 17, 2021). EDINET is accessible via the following URL.

<https://disclosure.edinet-fsa.go.jp>

The amount of Walmart's outlay for Seiyu is calculated on Walmart's own balance sheet (BS) in terms of the current stock price of the subsidiary, but on Seiyu's balance sheet as a shareholder asset equal in value to the original price, part of the firm's net worth.^[19] The amount loaned by Walmart is treated by Walmart as an amount loaned and by Seiyu as an amount borrowed.^[20]

If Seiyu were a publicly listed company, its balance sheets for the Tokyo area and for other regions would be subject to disclosure requirements. However, as a non-listed company, Seiyu is not obligated to make such details public. As long as Seiyu does not *voluntarily* disclose details of its operations for purposes of investor relations, that information will remain undisclosed. Even for listed companies, the question of where to draw boundaries between corporate segments is left up to the company itself. Many companies choose to segment financial disclosures by business unit rather than by geographical region, and companies that *do* disclose information for individual geographic regions often employ rather coarse geographical subdivisions. Consequently, as we noted previously in Notes (3) for Section 2, region-specific data, such as sales volume or profit for the Tokyo area or other regions of Japan, are extremely difficult to extract from publicly available information.

An article on *Diamond Chain Store Online* dated May 21, 2020 mentions Seiyu's financial situation in recent years.^[21]

- According to financial results released by Walmart Japan Holdings (WJH) in December 2019, Seiyu's net profit for that year was 47 million yen, which was its first profit since transitioning from a limited liability company to a joint-stock company in November 2015. For 2018, Seiyu posted a loss of 66 million yen, and for 2017, the company had zero profit. For 2016 and 2015, Seiyu reported losses of 249 million yen and 880 million yen, respectively.^[22]

^[18] In preparing the content of this section, we received assistance from Satoshi Taguchi of the Doshisha University Faculty of Commerce and Taiichi Kimura of the Keio University Graduate School of Business Administration.

^[19] In consolidated accounting, a subsidiary's shareholder assets cancel the value of subsidiary stock held by the parent company, but a differential arises due to the difference between the original and current stock prices. This is known as "goodwill amortization."

^[20] Note that credit and liability transactions completed between a parent company and a subsidiary are also listed on the individual balance sheets, but in consolidated accounting they cancel each other.

^[21] <https://www.data-max.co.jp/article/35823> (in Japanese, accessed February 17, 2021)

^[22] Seiyu's sales, net profits, and other statistics are reported on its profit-and-loss sheet.

- WJH’s revenue consists of dividends from Seiyu, but because it is a nondividend-paying company, the sources of WJH’s revenue are probably rent for stores, rent for land, and dividends and commissions from card subsidiaries. Seiyu stores and land are owned by WJH, with fixed assets totaling 168 billion yen listed on the BS.

Notes for Section 6

- Seiyu’s financial situation had improved by 2011; thereafter, the company was unprofitable for some time but was profitable in 2019.
- Walmart’s total investment in Seiyu is said to be around 250 billion yen. Presumably, much of this was used to install new information systems and associated equipment, but it is interesting to ask how much was allocated to modernize and beautify older, deteriorating store fronts.

7 Medium-term Business Plan Adopted in 2019

We conclude by considering an article posted on *Diamond Chain Store Online* dated September 18, 2020.^[23] The article features an interview with Lionel Desclée, who became President and Chief Executive Officer of Seiyu in March 2019, describing the medium-term business plan referred to as “Spark 2022” adopted by Seiyu in June 2019. What follows is a concise summary of some portions of this article.

- Spark 2022 is something we put into place based on input from associates, partner companies, customers, and other sources. Its goal is to make Seiyu into a *local-value retailer*, tightly integrated into regional communities and providing those communities with higher-quality products at lower prices.
- The project consists of 4 key initiatives.
 1. Improving our differentiated customer value proposition (providing customers a sense of value in merchandise and shopping).
 2. Increasing effort toward fresh foods and prepared foods.
 3. Accelerating our omnichannel strategy.
 4. Furthering our EDLC strategy to implement the EDLP promise that serves as a foundation for the Walmart group.
- Desclée said he was extremely satisfied thus far with the results of Spark 2022, which had been in effect for over 1 year at the time of the interview; despite the crisis posed by the spread of infections due to the novel coronavirus, Seiyu’s growth exceeded the supermarket industry average, and measures of customer satisfaction continued to improve.

^[23] <https://diamond-rm.net/management/64153/> (in Japanese, accessed February 17, 2021)

Notes for Section 7

- Is it not the case that items 1 through 3 above all represent aspects of the business that did not go well under Walmart?

- (1) Sections 3 through 6 demonstrated the effectiveness of Walmart's corporate philosophy in improving Seiyu's operations (establishing focal points). However, at a time when Walmart must have been resisting the urge to withdraw from the Japanese market, the company felt the need to clarify its intention to be "tightly integrated into regional communities and providing those communities with higher-quality products." In comparison to the streamlining of operations, does this not signify a reduced awareness within Seiyu overall of latent demand for merchandise?
- (2) According to various comments available on the Web, it seems that Seiyu did not significantly outclass its competitors in its fresh-food lineup, although a more detailed investigation is needed. In the U.S., the geographical expanse of the country leads to consumers making weekend car trips to suburban warehouse stores to purchase large quantities of nonperishable foods, a phenomenon which is more prevalent there than in Japan. Indeed, in Japan, it remains common to purchase supplies for a day's meals that same day at stores near home. As noted in Section 2, transportation networks are particularly extensive in the Tokyo metropolitan area, where many residents do not need cars as a means of transport. For this reason, for stores in Japan, it is important to offer a wide range of perishable fresh foods. Did Walmart really possess the procurement powers and core competencies that this requires?
- (3) In the article cited in Section 5, Senior Vice President Hirabayashi said that "Walmart views Amazon as a rival." However, as noted in Section 2, in Japan, the overwhelming majority of fresh foods are purchased at brick-and-mortar stores, and thus it may have been difficult to see the online fresh-food market as a significant source of profits. The intense competition over fresh-food sales had been noted at the time of Carrefour's exit from the Japanese market, and thus we should be cautious about the notion that Walmart's preliminary research on the Japanese marketplace might have been inadequate.

8 Summary

Recall the Questions asked at the beginning of this material.

- (1) Considering the day-to-day operations of Seiyu employees, what sorts of behavioral principles, and in what situations, were shared in common among all employees? Predict what sorts of scenarios might unfold if these behavior principles were *not* shared in common among employees?
- (2) Was the corporate philosophy of Seiyu (Walmart Japan) sufficiently mature to accommodate a corporate culture containing the functions described in the main portion of this material? Was this

corporate culture successfully adapted to the business environment in Japan?

The corporate culture which had been cultivated at Walmart is summarized as pursuing low prices through thorough distribution management and cost reduction under the motto of EDLP. Operational efficiency is essential for successful implementations of EDLP (Section 4), and it is certainly appropriate to make associates aware of these imperatives (Section 3). Seiyu's upper management highly assessed Walmart's information systems and their centralized control of operations (Section 5). Walmart calls the idea of activities that contribute to cost reduction EDLC (Section 3).

As briefly mentioned in Section 4, EDLP was adopted not only by Seiyu but also by OK. It seems, however, that OK is strongly aware of not only EDLP but also the idea of "what kind of value should be provided to customers." For example, the system called "Honest Card" plays a role for building a relationship of trust with customers by honestly disclosing accurate information about products to customers. In addition, it is said that the level of loss rates is significantly low at OK, although there is a part that is similar to EDLC in terms of controlling waste. Furthermore, sold-out items are not necessarily replenished on the shelves immediately at OK, although it may not be a general policy of OK. This sales style is accepted by its consumers probably due to changes in lifestyle but it would not be adopted unless OK was sensitive to changes in consumer behavior.

It was confirmed in Section 3 that Seiyu had been commended not only for activities for cost reduction but also those for "Do everything in your power to serve customers," and thus we can say that Seiyu was not insensitive to the consumer behavior. The cost-reducing activities based on EDLC, however, might have created the following situation where EDLC was shared among employees as a strong behavioral principle.

In a strategic-form game illustrated in Figure 1, players 1 and 2 collaborating in the same workplace take either cost-reducing action (EDLC) or customer service (customer), and players obtain their payoffs according to their choices. Assume that a_1 , a_2 , b_1 , b_2 take positive values. If a player chooses EDLC and the other chooses customer service, then a conflict between them appears and each player obtains a negative payoff of -1. There exist two Nash equilibria (*EDLC*, *EDLC*) and (*customer*, *customer*) in this game. If an equilibrium (*EDLC*, *EDLC*) realizes repeatedly, then we may infer that a behavioral principle (focal point) is shared between those players under a corporate culture. See the Appendix for brief explanations of strategic-form game and Nash equilibrium as well as the concise definitions of focal point and corporate culture.

If a typical situation in the workplace at Seiyu is captured in this way, the employees would be so strongly aware of the behavioral principle that they might not care about the customer services sufficiently, if the corporate culture induced all employees to choose EDLC. This point can be inferred from the interview with President Desclée in June 2019 (Section 7). On the other hand, OK emphasized other points as well; its motto is "High Quality and Everyday Low Price," although High Quality may not directly imply customer services.

2							
<i>EDLC</i> <i>customer</i>							
1	<table border="1" style="border-collapse: collapse; width: 100%; height: 100%; text-align: center;"> <tr> <td style="padding: 5px;"><i>EDLC</i></td> <td style="padding: 5px;">a_1, a_2</td> <td style="padding: 5px;">$-1, -1$</td> </tr> <tr> <td style="padding: 5px;"><i>customer</i></td> <td style="padding: 5px;">$-1, -1$</td> <td style="padding: 5px;">b_1, b_2</td> </tr> </table>	<i>EDLC</i>	a_1, a_2	$-1, -1$	<i>customer</i>	$-1, -1$	b_1, b_2
<i>EDLC</i>	a_1, a_2	$-1, -1$					
<i>customer</i>	$-1, -1$	b_1, b_2					

Figure 1: $(EDLC, EDLC)$ is a Nash equilibrium in this game

Note that we did not concretely infer what would occur in counterfactual cases where EDLC was not shared among employees in a game illustrated in Figure 1. In particular, it would be important to consider the case of $(EDLC, customer)$ or $(customer, EDLC)$. Furthermore, if Seiyu created such a situation that would be represented by the game illustrated in Figure 1 by inheriting Walmart’s corporate culture, then it should be necessary to have some form of measure of the “strength” of corporate culture. Those tasks are still left to the readers.

Appendix

A *focal point* is the behavioral principle shared by players who need to coordinate their behavior in a strategic situation. In corporate organizations, a focal point is considered to be created and maintained through a corporate culture that is cultivated in recurring situations. We here explain how a focal point functions, describing Johnson & Johnson’s response to “Tylenol Crisis” as an example.

Tylenol is an antipyretic analgesic drug (containing acetaminophen as a single component) manufactured by Johnson & Johnson and is sold in Japan under the brand name Tylenol A. At the end of September 1982, Johnson & Johnson received reports that some unknown person had tampered with Tylenol by mixing it with poison. The company’s management immediately decided to recall all Tylenol that could have been contaminated and actively disclosed relevant information through the media, responding promptly at a “company-wide” level. Two months after the incident, sales had recovered to about 80% of their previous level, indicating that consumers’ trust had not been lost so that some people suggested that the public’s estimation of Johnson & Johnson had risen.

We might imagine the possibility of claims by someones in the firm that it would be better to curb short-term decreases in revenue and falling stock prices by not disclosing much information. Johnson & Johnson’s extremely swift response thus reminded game theorists that a day-to-day “customer first” corporate culture had generated a shared code of conduct or behavioral principle at a company-wide level in unforeseen circumstances. What caught the attention of game theorists?

Let us consider the simple strategic-form game illustrated in Figure 2, where player 1 can choose U or L and player 2 can choose L or R . A list of strategies chosen by players (U, L) is called a Nash equilibrium in which player 1 obtains 2 and player 2 obtains 1 as their payoffs, respectively. When (U, L) realized, player 1 would not be better off even if player 1 changed his or her strategies from U to D , because he or she would obtain -1 by doing so. Also, player 2 would not be better off by changing his or her strategies from L to R . Namely, there is no incentive for each player to change his or her strategies in a Nash equilibrium.

In this game, however, there exists another Nash equilibrium (D, R) in which player 1 obtains 1 and player 2 obtains 2. Player 2 prefers (D, R) to (U, L) because of a higher payoff at (D, R) . On the other hand, similarly, player 1 prefers (U, L) and (D, R) . Even if player 1 prefers (U, L) and chooses U , he or she receives a negative payoff of -1 when player 2 chooses R insisting the realization of (D, R) , although player 2 receives -1 as well by doing do when player 2 expects that player 1 chooses D .

Players with different claims on possible outcomes thus need to coordinate their choices of strategies in some way, when there are multiple Nash equilibria. It might, however, take much time to coordinate their choices with each other. Other negotiation costs would also arise. If some behavioral principle are shared among all players, then a Nash equilibrium realizes immediately without incurring time and costs for the negotiations, that is, without even the need for coordination.

		2	
		L	R
1	U	2, 1	- 1, - 1
	D	- 1, - 1	1, 2

Figure 2: Battle of the Sexes: There are two Nash equilibria.

This game is sometimes called the battle of the sexes. The realization of (U, R) or (D, L) by coordination failure may lead a breakdown of the relationship between those players, and it captures a situation of conflicts that need coordination among decision-makers in many organizations. Can we say that Johnson & Johnson would have been able to immediately respond to the Tylenol Crisis, if no behavioral principle generated by its day-to-day “customer first” corporate culture had been shared among managers and employees at a company-wide level?

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