



Lessons to Learn from Japanese Retailers on Natural Disaster Recovery

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Summary

Managers in Japan, a geologically active country, have long had to deal with sudden and unanticipated disruptions in their supply chains, such as that caused the 2011 earthquake, tsunami, and nuclear disaster. Retail managers around the world who are now dealing with COVID-19 can learn important lessons from the experiences that Japanese retailers had when faced with a natural disaster. The first lesson is that they need to create a Business Continuity Plan for activation during such emergencies. Second, they should use make more intensive use of intermediaries to manage interrupted supply chains during such crises. Third, it is crucial that managers show solidarity with communities during such crises, as stakeholders will remember firm actions long after the crisis. The fourth lesson relates to the need to maintain strong long-term business relationships during such crises.

Introduction

COVID-19 has made all stakeholders more conscious of the importance of retailing. Most consumers in developed countries had previously taken it for granted that they could obtain a range of food products at grocery stores and enjoy the shopping experience whenever wanted, provided they had sufficient funds. Since March, consumers have been struggling to secure bare necessities such as toilet paper and hand soap, and many shops such as clothing stores and department stores are closed under current lockdown rules. Retailers now have a crucial role to play for two main reasons. First, as the final link in supply chains, the entire chain depends on their actions to work smoothly. The way they deal with panic buyers are a prime example, as the bullwhip effect this causes in supply chains can result in a skewed distribution of products (Lee et al., 1997). Second, retailing is the interface between the supply chain and consumers. Closed shops change the landscape of town and city centres, and consumers are unable to interact with shop assistants as they did before. While online shopping can be a replacement for the purchase of goods, it cannot replace these face-to-face interactions that take place in local shops.

Similar changes to retailing were seen in the aftermath of the Great East Japan Earthquake. A massive earthquake and subsequent tsunamis struck the Tohoku region of Japan on 11 March 2011, and swept away many houses, cars, shops, airports, seaports,



hospitals, and schools. The Japanese government confirmed 19,729 deaths, 6,233 people injured, and 2,559 people missing all over Japan, and a total of 1,153,398 houses were completely destroyed or seriously damaged (Fire and Disaster Management Agency, 2020). In addition, the tsunamis hit the nuclear power plants of the Tokyo Electric Power Company (TEPCO) in Fukushima, and leaked radiation led to nuclear meltdowns. Due to this accident, consumers were reluctant to buy goods made in this disaster-stricken area. As a result, there was a direct loss to the economy of at least USD 210 billion and a 0.7% contraction of GDP in 2011 (World Bank, 2012).

Following this disaster, the total number of stores in Japan were down 10% in 2012 compared with 2007, and in Fukushima they dropped by 17%. The total sales from retailing in Fukushima also decreased by 17% in 2012 compared with 2007 (Ministry of Economy, Trade and Industry, 2012). Most retailers closed their stores, but some wanted to remain open, despite the challenges of doing so. The physical damage to the stores made it difficult for them to carry out their business, but they realized that the positive psychological impact of their store's accessibility for consumers was crucially important. Customers could see that open stores were a symbol of the recovery of their community.

On 13 March, two days after the principal earthquake, Daiei – a subsidiary of Japan's leading retailer, Aeon – partially opened its Sendai branch to meet its customers' needs, despite not having the full use of its facilities. Although there had been no official notice of this, 1,500 customers had already lined up in an orderly manner outside the store when its doors opened. Word quickly spread through social media that Daiei had opened its store and had plenty of products to sell, and by the time the store opened its doors the following day on 14 March over 4,000 customers were lined up, forming a queue a kilometre long, with some people having waited patiently for four hours in the falling snow. Many customers thanked the shop assistants, as Daiei had become a real lifeline for them (Asahi Shimbun, 2011).

Retailers During a Natural Disaster

After the disaster, many retailers were seen as beacons of hope. Seven & I Holdings set up a contingency team after the four-minute earthquake. Its headquarters centralized the gathering of information and the buying and reallocation of products, to avoid any products becoming out of stock in a particular area (Kawabe, 2011). Its subordinate convenience store, Seven-Eleven Japan, was forced to close 600 stores, although 85% of these reopened by 23 March; it also resumed its just-in-time delivery system in its franchised stores by 26 March (Nikkei Shimbun, 2011). Its subsidiary supermarket, Ito-Yokado, continued to run its store in the city of Ishinomaki without any electricity (Seven & I Holdings, 2011).



In some towns and cities, the local supermarket Maiya was the only place where people could buy food, so it could not close its stores. Following the damage from the earthquake, it reopened its business in its parking areas (Small and Medium Enterprise Agency, 2011), sourcing products through its cooperative purchasing group and adapting its merchandise in consideration of the premises (Kawabe, 2011). In contrast, Aeon had only 36% of its stores able to run in the disaster-stricken area on 12 March, but had all of them reopened by 10 August. It set up a contingency team both at its headquarters and at local branches, and sent 2,600 staff members to affected areas to support the local staff, and to assess the damage and safety conditions. Aeon used its global network to purchase products and rebuild its supply chain, relocating products to where they were most needed, and supplying local governments. It also collected charitable donations from other parts of the country to support the local governments and fund scholarships for young people in the aftermath of the disaster (Aeon, 2011).

As circumstances were constantly changing, retailers had to keep modifying their recovery plans to meet people's needs. For example, for the first 10 days, Lawson's retail stores were instructed to do whatever was possible within each community, and every one quickly sold all its stock in front of its damaged store. Lawson's headquarters in Tokyo then began to deliver fuel with its alliance company, Japan Post, not as a business opportunity, but purely for survival in order to cover fuel shortages in the area. For the next 10 days, Lawson set a target to reopen its franchised stores and play a significant role in its communities as a local accessible store for its customers (Lawson, 2011).

Lessons for Retailers Facing COVID-19

Retailers in 2020 can learn some important lessons from their counterparts' experiences of the Great East Japan Earthquake. First is to create a Business Continuity Plan, considering what can be done to minimize the damage, and to resume business as soon as possible. Japanese firms that were successful in their response to the 2011 disaster (including Aeon, Seven & I Holdings, and Lawson) now had these plans ready in case they would be needed again (Small and Medium Enterprise Agency, 2011).

The second lesson is to use intermediaries to manage interrupted supply chains. In Japan's 2011 disaster, retailers pooled their information to request and arrange transport of the needed products from the western part of Japan to the east. In the case of COVID-19 today, manufacturers have enough toilet paper stocked at their factories, but there has been none available at stores because of panic buying and a shortage of truck drivers. If retailers use intermediaries to share information about product levels and distribution requirements, then firms can maintain functioning supply chains.



The third lesson is to show solidarity and support for communities, by keeping consumers informed and reducing panic spreading through social media. In the case of Japan's natural disaster, social media was mainly used by people to access helpful information. In contrast, in response to the current COVID-19 pandemic, social media has been amplifying people's anxiety and uncertainty with the widespread sharing of empty supermarket shelves, which has then increased panic buying around the world. While the earthquake and tsunamis were the peak of the 2011 disaster, the peak of the 2020 pandemic is not yet known, as infections continue to rise. Retailers can reduce the ongoing anxiety felt by communities around the world by sharing information and showing the support and solidarity that was provided by Japanese retailers in 2011.

The fourth lesson is to maintain strong long-term business relationships. As Sakaguchi and Makino (2011) demonstrated, these become crucial in a state of emergency. Maiya's good working relationship with its cooperative purchasing group was essential for maintaining its stock levels, and Aeon's global network greatly contributed to its recovery. In contrast, a lean production system that relies only on short-term business partnerships with the cheapest manufacturers in the lowest labour-cost countries, is currently under immense strain due to widespread border closures in response to the COVID-19 pandemic. While lean manufacturing can be a key to success, it is also vulnerable in emergencies (World Bank, 2012). Although long-term partnerships may ordinarily seem inefficient, they will act as a strong buffer in a state of emergency.

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