

BOOTS PLC: JAPAN MARKET ENTRY¹

Derek Lehmborg wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

Richard Ivey School of Business Foundation prohibits any form of reproduction, storage or transmission without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Richard Ivey School of Business Foundation, The University of Western Ontario, London, Ontario, Canada, N6A 3K7; phone (519) 661-3208; fax (519) 661-3882; e-mail cases@ivey.uwo.ca.

Copyright © 2012, Richard Ivey School of Business Foundation

Version: 2012-05-02

In early summer 1998, William Spence, a Boots PLC manager charged with arranging the company's Japan market entry, was in Tokyo.² This was his third year of the effort.³ Boots, a well-known U.K.-based drugstore chain with a strong store-brand product lineup, had never operated in the country, and there had been much to learn. While some preparation for market entry had taken place, there was still much to be done before Boots The Chemists (BTC) could open a retail location. Many of the issues that Boots was facing were not easily overcome. Obtaining good retail locations in Japan was difficult, and Boots had little experience dealing with Japanese regulators or selling to the Japanese public. In 1998, Boots had been in discussions with Mitsubishi Corporation about forming a joint venture (JV) to develop and operate several pilot stores in the Tokyo area. Mitsubishi would provide local experience and a well-known name. Spence needed to make a decision: Was the proposed joint venture a good idea for Boots?

BOOTS PLC

Boots PLC was an English firm that was founded by John Boot in 1849. Its main business was formulating and selling medicine, cosmetics and other beauty and health-related items. A pioneer in the market, Boots had 560 stores in the United Kingdom by 1913, when it had a turnover of £2.5 million.⁴ After the world wars, Boots continued to grow, and its retail locations had become a common fixture of the traditional English shopping areas known as "High Streets." Boots' headquarters had grown into a sprawling campus that included its own electrical power plant amongst other amenities and was located in Nottingham, a little over 160 kilometres from central London.

As Boots grew, it diversified into a number of other businesses such as retail, services and manufacturing. Boots was best known for its drugstore chain, BTC, but it also owned a car and bike parts retailer, Halfords, and a home centre retailer called Do It All (see Exhibits 1 and 2). Boots Opticians was a chain of optical shops. In addition to retail, the company also made health and beauty products. Boots developed

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Boots PLC or any of its employees.

² B. Rahman, "Boots Throws Down the Gauntlet in Land of Rising Sun," *Financial Times*, August 14, 1999: p. 20.

³ Ibid.

⁴ Pankaj Shandilya, Robert Fisher and Murray Bryant, "Boots: Hair-care Sales Promotion," *Ivey* case 9B05A022, 2005, p. 2.

and launched between 1,500 and 2,000 new health and beauty products per year. It manufactured products to be sold under the Boots brand name as well as a number of other brands managed by the company's subsidiary, Boots Healthcare International (BHI). BHI, which was formed in 1991, concentrated on the self-medication market and included some of the top-selling products in their categories, such as Nurofen, Strepsils and Clearasil. In addition to selling these products in the United Kingdom, BHI also exported to 130 countries.⁵

As of 1998, the firm had 1,350 stores in the United Kingdom and enjoyed a large share of the health and beauty market.⁶ Ubiquitous and well-thought-of, the Boots brand occupied a special place in U.K. society. Seventy-two per cent of U.K. consumers said they trusted the Boots brand to be "honest and fair." This was more than any of its competitors.⁷

BTC sold a broad variety of products. Beauty and personal care was the leading category, representing nearly 40 per cent of BTC's total sales. This was followed by prescription medicine, about 20 per cent of sales, and over-the-counter drugs that represented another 16 per cent. The food and baby consumables, gifts, photo and music categories made up the remaining BTC sales.⁸

BTC carried a variety of branded products from other companies; however, products made by Boots and carrying a Boots-owned brand were prominent (see Exhibit 3). Number 7 (No. 7), for example, was a major Boots sub-brand that was strong in the cosmetics and skin care markets. By category, BTC's 1998 sales were 43 per cent health care, 40 per cent beauty and 17 per cent leisure-related products.

Competition in U.K. domestic drug, health and beauty retailing appeared to be growing. Supermarkets were increasing their emphasis in many of the product categories carried by BTC. Walmart had purchased a U.K.-based supermarket chain called Asda, which was increasingly competing with Boots.⁹ Differentiation based upon Boots' branded products was one way the firm was attempting to deal with this new competition.

INTERNATIONAL OPERATIONS

Outside of BHI, Boots generated few international sales. In the past, Boots had been more active in international markets. It had held a chain of stores in Canada (sold in 1988) and for a time worked together with Sephora in France (discontinued in 1993).¹⁰

In 1998, Boots was in the process of investing in more international development. In May 1996, the company announced that it would search for international opportunities for BTC.¹¹ Since then, Boots had entered retail markets in the Netherlands, Ireland and Thailand.¹² Boots began its entry into the Netherlands with a location in Rotterdam in 1997, and considered this an opportunity to build a blueprint for a later rollout across Europe.¹³ In Thailand, Boots opened six pilot stores in 1997, and was planning to open 40 stores, primarily in the Bangkok region, in the following two years. In the long term, Boots

⁵ *Ibid*, p 3.

⁶ M. Urry, "Dutch Expansion at Boots," *Financial Times*, January 30, 1999, p. 20.

⁷ Boots 2000 Annual Report.

⁸ J. Richards, S. Eddie and N. Cockrell, "Boots: Consistent Healthy Value," *NatWest Securities*, May 21, 1997.

⁹ P. Hollinger, "Boots to Trip L160M in Costs," *Financial Times*, Sept 23, 1994, p. 34.

¹⁰ S. Voyle, "Chemists Take Scientific Approach to Expansion," *Financial Times*, June 17, 1999, p. 4.

¹¹ J. Richards, S. Eddie and N. Cockrell, "Boots: Consistent Healthy Value," *NatWest Securities*, May 21, 1997.

¹² M. Urry, "Dutch expansion at Boots," *Financial Times*, January 30, 1999, p. 20.

¹³ *Ibid*.

thought the Thai market held the potential for up to 150 stores.¹⁴ The pilot stores were opened under a JV agreement with U.K.-based MSAS Global Logistics. MSAS specialized in distribution and had local Thai employees to facilitate opening the pilot stores.¹⁵

Boots foresaw health and beauty brands becoming more globalized in the future. By introducing BTC stores overseas, Boots could increase its exposure and sales of Boots store-brand products. Although the overseas stores were only pilots, the company pointed at its success in selling Boots-branded products at these locations. In Thailand, 37 per cent of sales were Boots brands, and in the Netherlands they accounted for 47 per cent of sales.¹⁶

THE JAPANESE MARKET

Japan had the world's second-largest economy after the United States; however, it was also one in recession. The economy had been growing strongly for decades, but had stalled after a large asset bubble burst in the early 1990s. While these economic conditions dampened consumer sentiment, the burst of the bubble made entry by foreign firms easier, as real estate became more affordable.

The Japanese population was largely concentrated in two greater metropolitan areas: Kansai (Kinki) and Kantō (see Exhibit 4). The Kansai area included the cities of Kobe, Osaka and Kyoto and their surrounding areas. The Kantō area included Tokyo and the surrounding prefectures. Of the two, the Kantō area had a larger population. Also, Tokyo was the centre of Japanese business and government. Many people continued to move into the Tokyo area from less-populated parts of Japan.

The Japanese market for cosmetics and toiletries was worth £16 billion, or four times the size of the U.K. market.¹⁷ Japanese consumption of over-the-counter (OTC) medicine amounted to more than 15 per cent of global OTC sales.¹⁸ The market was highly regulated, but the level of regulation was decreasing. Pharmaceutical retailing in Japan had been growing in terms of employees, store locations and revenue (see Exhibit 5). In 1998, there were no foreign retailers in the pharmaceutical area, although some industry observers suggested that their entry was likely.¹⁹

JAPANESE DRUGSTORES

Drugstores, which handled health and beauty products in addition to prescription medicine, represented a small portion of total retail pharmacies in Japan; however, several environmental trends appeared to favour growth of this kind of retailing in the future.²⁰ The Japanese population was aging quickly and would be purchasing more medicine, bolstering pharmaceutical sales in general. Japan was shifting from doctors selling the drugs they prescribed to using more independent pharmacies for prescriptions. This opened up opportunities to sell other products to prescription customers. Finally, overall government regulation of retailing was decreasing, enabling the construction of larger stores and different formats.

¹⁴ W. Barnes and P. Hollinger, "Boots to Launch L9m Expansion in Far East," *Financial Times*, May 14, 1998, p. 31.

¹⁵ S. Voyle, "Chemists Take Scientific Approach to Expansion," *Financial Times*, June 17, 1999, p. 4.

¹⁶ Boots 1998 Annual Report.

¹⁷ B. Rahman, "Boots Throws Down the Gauntlet in Land of Rising Sun," *Financial Times*, August 14, 1999, p. 20.

¹⁸ "Boots strides into Japan," *BBC News*, July 28, 1998, <http://news.bbc.co.uk/2/hi/business/140916.stm>, accessed November 23, 2011.

¹⁹ B. Rahman, "Boots Throws Down the Gauntlet in Land of Rising Sun," *Financial Times*, August 14, 1999, p. 20; "Doragugusutoa Meikan 1998," *Kabushiki Kaisha HCI*, Tokyo, 1998, p. 40.

²⁰ A. Harney and P. Hollinger, "Boots to Enter Japanese Market," *Financial Times*, July 29, 1998, p. 30.

Several distinct categories of drugstore were evident in the Japanese market. The neighbourhood drugstore targeted housewives and offered a convenient place to purchase day-to-day items. The suburban drugstore was close to a major road and targeted car drivers. The urban drugstore targeted young people living in urban centres as well as travellers. It emphasized the quality of the products carried, which included some specialty and luxury items. The train station area drugstore targeted rail commuters and offered speed and convenience, selling relatively common products.²¹ Larger drugstores carried a broad variety of products ranging from food to stationary products, in addition to health care products and medicine. The margins of these products varied significantly (see Exhibit 6).

Investment analysts covering firms listed on the Japanese stock market noted strong growth of revenue and profit amongst publicly listed Japanese pharmacy groups. However, industry watchers noted that while the number of stores was growing rapidly, many drugstores were going bankrupt or closing. Furthermore, average revenue per square foot was declining in the industry (see Exhibit 7). These trends were partially explained by an increase in the number of large suburban stores and the failure of some older and smaller stores to modify their approach to meet consumption trends. As a group, these stores suffered from overreliance on their suppliers and put little if any emphasis on growing the business.²² As a result, they had little ability and awareness of the need to change. Industry observers cautioned that the industry was uncompetitive internationally and could become the target for a strong foreign retailer.

Despite these issues, several drugstore chains were well-positioned to capitalize on the changing market. Of these, Matsumoto Kiyoshi was considered a leader. It was growing rapidly in the Kantō area.

MATSUMOTO KIYOSHI

Matsumoto Kiyoshi (MK) was Japan's largest drugstore chain. MK drugstores sold a variety of health and beauty-related products and emphasized self-selection in the shopping process.

Founded in the Chiba prefecture near Tokyo in 1932, MK aimed to provide "good products cheaper" while being a "friendly store."²³ MK focused mainly on the greater Tokyo area but also had some stores in the Tohoku region. MK had entered a stage of aggressive expansion. It had over 300 drugstores, and had been expanding its number of stores at a 14.5 per cent cumulative average growth rate (CAGR) over the four years since 1995. Over the same period, MK's total drugstore sales were increasing at a 24.5 per cent CAGR.²⁴

THE HEALTH AND BEAUTY BUSINESS IN JAPAN

Japan had a large and well-developed health and beauty products industry. Throughout the late 1990s, it was a large though rather stagnant market in which both Japanese and foreign companies competed. Manufacturers enjoyed higher margins on cosmetics products than toiletry products such as shampoos and soaps.

²¹ K. Matsumura, "Saishin doraggusutoa no dōkō to karakuri ga yoku waku hon," *Kabushiki Kaisha Shūwa Shisutemu*, 2010.

²² "Doraggusutoa Meikan 1998," *Kabushiki Kaisha HCL*, Tokyo, 1998.

²³ *Company slogans paraphrased in English. Matsumoto Kiyoshi 1999 Annual Report.*

²⁴ *Matsumoto Kiyoshi 1999 Annual Report.*

In cosmetics, foreign firms had a mere six per cent of the cosmetics market by shipments in 1997, although this share was growing.²⁵ Some of the larger local players in the business included Kanebo, Pola and Shiseido. Shiseido started as a pharmacy in 1872, although it had later exited. It had been working on developing business in overseas markets as well as Japan. Many premium cosmetics brands in Japan, like Shiseido, had stressed distributing through premium retailers that employed a consultative selling approach. Some industry watchers considered this approach to be outdated, as consumers were increasingly interested in choosing products for themselves in self-service retailers.²⁶

Several international firms had managed to increase their share of the shampoo and hair care segments in Japan. For example, Wella, a German hair care company that was the market leader in professional shampoos, realized seven per cent of its global revenues in Japan.²⁷ In consumer retail shampoos, Japanese consumer packaged goods giant Kao held the largest share, followed by Procter and Gamble Japan. Unilever's Japanese subsidiary was also a significant player in the Japanese market.²⁸

REGULATION AND IMPORT RESTRICTIONS

Although Boots factories located in the United Kingdom produced products that met U.K. and U.S. standards, Boots was unable to import its products to Japan without modification. To obtain approval to import its products, many Boots products would have had to be reformulated. Boots estimated the number of products needing reformulation to be greater than 2,000. After reformulation, these products would have had to be registered with the Japanese authorities.

New regulations with fewer restrictions on cosmetics ingredients were set to go into effect;²⁹ however, this would not necessarily solve all of Boots' problems, as authorities had considerable leeway in how they applied such regulations.

THE JAPANESE CUSTOMER

Japanese consumers differed from their counterparts in other developed countries in a number of ways. They were well-known for having very high quality standards. Inferior products were unacceptable, even if they were inexpensive. Japanese consumers had grown to expect thoughtful product design and ease of use. Furthermore, packaging needed to be attractive, but at the same time, easy to use.

Unlike consumers in many other countries, most Japanese people did not feel that more was necessarily better. In Tokyo, many people lived alone or in a small nuclear family. With such small households, each household's consumption of commodities such as shampoo was low. At the same time, population density was high, rent was costly and living space was at a premium. For many consumers, buying in large quantities and storing things for later consumption was not an option. Instead, many customers purchased smaller packages more frequently.

²⁵ T. Williams, H. Okubo and N. Kuroki, "Shiseido," *SBC Warburg*, March 5, 1998, accessed January 24, 2012 through Investext Investment Research database.

²⁶ Ibid.

²⁷ C. Windle and S. Massot, Wella: "Delivering on Its Promises," *Morgan Stanley Dean Witter European Investment Research*, March 25, 1999, accessed January 24, 2012 through Investext Investment Research database.

²⁸ T. Williams, H. Okubo and N. Kuroki, 1998, "Seiseido," *SBC Warburg*, March 5, 1998, accessed January 24, 2012 through Investext Investment Research database.

²⁹ N. Nakamae and B. Rahman, "British Retailers Try to Make It Big in Japan," *Financial Times*, December 30, 1999, p. 18.

It was not easy to develop and maintain a successful retail business in Japan. Spence commented on the consumer situation in Japan: “Japanese customers are extremely demanding. You have to get things more right in Japan than anywhere else.”³⁰

DIFFICULTIES AS A FOREIGN COMPANY

Foreign companies often had difficulty entering Japan. In addition to complex regulations, obtaining access to resources — including people and real estate as well as financial resources — was often hard for foreign companies that — even if they were major players abroad — had no local reputation or business relationships in Japan. Many Japanese people considered foreign firms to be fickle and less trustworthy than local firms. Potential employees, landlords and financial institutions often preferred the stability of doing business with a local Japanese firm to the potential growth opportunity (or failure potential) of working with a foreign firm.

DISCUSSIONS WITH JUSCO

Boots had discussed forming a JV with Jusco, a major Japanese retailing group.³¹ Jusco was a nationwide operator of general merchandise stores, supermarkets and specialty stores. In 1995, the company was also involved in other retail activities including mall development and operations, in addition to a variety of other services such as credit cards.³²

Jusco had previous international experience. The company had retail locations outside of Japan including Hong Kong, Malaysia and Thailand. The company also had experience working with foreign retailers. It had built relationships with Laura Ashley and the Body Shop of the United Kingdom and Talbots of the United States.

Jusco had already invested in the drugstore business, which appeared to be an attractive addition to its existing businesses. In 1995, Jusco entered into an equity alliance with the Japanese drugstore chain Tsuruha, which operated in the Tohoku region.³³

Despite the attractive potential of a JV between Boots and Jusco, discussions ended without any agreement. There were two major points of disagreement: Boots’ concept revolved around differentiating through its own branded products, while Jusco had expressed interest in developing the venture as a discount drugstore.³⁴ Furthermore, the two companies could not agree on the ratio of ownership stakes that the firms should take in the JV.³⁵

MITSUBISHI CORPORATION

Tokyo-based Mitsubishi Corporation (MC) was one of Japan’s oldest and largest trading companies.³⁶ MC was founded in 1870 under the name Tsukumo Shōkai.³⁷ As Japan developed, MC had grown primarily by

³⁰ B. Rahman, “The Japanese Face of Boots,” *Financial Times*, October 4, 2000, p. 15.

³¹ Jusco later changed its name to Aeon.

³² Jusco 1998-1999 annual report.

³³ “About AEON: History,” *AEON*, www.aeon.info/en/aboutaeon/history.html, accessed March 5, 2012.

³⁴ S. Yoshimura, “Eibutsu-sya ga Nippon de Goben, Droggusutoa mo daikyousō: Shikinryoku nigyoukai-sensenkyōkyō,” *Nikkei Ryutsū Shinbun*, August 6, 1998, p. 15.

³⁵ *Ibid.*

³⁶ “Kaishashikihō, 2007-nen 3-shō natsu,” *Toyokeizai*, Tokyo, 2007.

obtaining resources for Japanese consumption and manufacturing from abroad and selling Japanese-made products overseas. In fiscal year 1997/98, MC had reported ¥15.8 trillion in sales (roughly equivalent to US\$120 billion at the time³⁸) and a net income of ¥48 billion. Not only was it a large and successful company, MC was also well respected in the Japanese business community.

Mitsubishi's six major lines of business included information systems and services, fuels, metals, machinery, chemicals and living essentials (see Exhibit 8). The fuel, metal and chemical businesses involved investment in major overseas operations as well as trading with foreign countries. Living essentials, which included food, textiles and general merchandise, represented the largest group in terms of revenue and profit. Mitsubishi was doing well in food-related areas and had been shifting resources away from the areas of textiles and general merchandise in which it did not have advantages. This business line also provided logistics services to retailers.³⁹

MC belonged to the Mitsubishi *keiretsu*, a grouping of many Mitsubishi companies held together by cross-shareholdings and other business ties. The Mitsubishi *keiretsu* was one of Japan's oldest and largest industrial groups and included a number of firms that were leaders in their respective industries in Japan.

Mitsubishi had a number of substantial operations relating to real estate, an important aspect for finding locations to lease for Boots pilot stores. MC itself had some holdings of commercial real estate in Japan. Inside the Mitsubishi *keiretsu*, the real estate firm Mitsubishi Estate had further commercial developments in a number of major business and commercial areas in Tokyo.

MC had many years of experience working with foreign firms and governments. Much of this experience was overseas and in natural resource industries such as oil extraction. However, MC had also worked with foreign firms on Japanese soil. It was widely known that MC ran Kentucky Fried Chicken Japan, which had been a major success beginning with its first store in 1970.⁴⁰

Mitsubishi considered retail to be an important sector for the future. As its existing exposure was somewhat limited, MC hoped to increase its retail activities. A JV with Boots would be one step in this direction.⁴¹

THE JOINT VENTURE PROPOSAL

The proposal under consideration was as follows. Boots would take a 51 per cent stake, and Mitsubishi a 49 per cent stake, in the JV organization. The planned investment was to be £22 million, which would be used to open four pilot stores in the Tokyo area. Boots would supply the president of the JV, with a vice-president coming from Mitsubishi.

Mitsubishi would bring considerable Japanese influence to the venture. There was little question that Mitsubishi could be useful in securing good retail locations. However, obtaining access to suitable retail locations was not the only problem facing Boots in Japan. Would Mitsubishi be able to help Boots manage

³⁷ "The Ship-Related Business of the MC Group," *Mitsubishi Corporation*,

www.mitsubishicorp.com/jp/en/mclibrary/projectstory/vol09/, accessed November 26, 2011.

³⁸ "Juyō jikeiretsu tōkei deta hyō," Bank of Japan. www.stat-search.boj.or.jp/ssi/mtshtml/m.html accessed November 27, 2011.

³⁹ *Mitsubishi Corporation 1998 Annual Report*.

⁴⁰ "KFC Japan," *Mitsubishi Corporation*, www.mitsubishicorp.com/jp/en/mclibrary/projectstory/vol02/ accessed November 26, 2011.

⁴¹ "Boots Strides into Japan," *BBC News*, July 28, 1998, <http://news.bbc.co.uk/2/hi/business/140916.stm>, accessed December 3, 2011.

the Japanese regulations? Would it be able to provide meaningful advice about how to attract and retain Japanese customers?

These were key questions for the near future. Longer-term issues also needed consideration. Would the two companies continue to share the same interests? Spence needed to consider these issues and make a decision: Should Boots go with Mitsubishi? He had to make a recommendation concerning what Boots should do with regard to the Japanese market.

Exhibit 1

BOOTS PLC SELECTED FINANCIAL DATA BY SEGMENT (CONTINUING OPERATIONS ONLY)

	1998	1997	1996
	£ Million	£ Million	£ Million
Revenue, including inter-segment revenue			
Boots The Chemists	3573.7	3313.5	3107.6
Halfords	435	412.8	390.5
Boots Opticians	182.9	148.1	123.3
Do It All	337.2	254.6	-
Boots Healthcare International	273.7	243.4	206.7
Boots Contract Manufacturing	314.9	259.5	239.4
Boots Properties - Development	49.4	0.5	7
Boots Properties - Investment	100.2	101.6	95.9
International Retail Development	5.2	-	-
Operating profit before exceptional items			
Boots The Chemists	443.8	426.5	384.8
Halfords	34.2	26.8	22.1
Boots Opticians	17	13.8	10.9
Do It All	2.5	-6.2	-
Boots Healthcare International	1.2	-6.6	-8.2
Boots Contract Manufacturing	24.7	19.7	16.7
Boots Properties - Development	8.8		1.8
Boots Properties - Investment	67.2	72.1	66.4
International Retail Development	-21.2	-8.5	-1.1
Capital expenditure			
Boots The Chemists	146.9	88.3	86.1
Halfords	14.9	12.3	14.5
Boots Opticians	7.8	8.9	11.2
Do It All	6.6	7.5	-
Boots Healthcare International	7.4	11	12.5
Boots Contract Manufacturing	26.5	31.4	29.5
Boots Properties	61.6	63.8	75.1
International Retail Development	4.8	1.1	-

Source: Boots 1998 Annual Report.

Exhibit 2**BOOTS STAFF NUMBERS IN CONTINUING OPERATIONS**

Operation	1998	1997
Boots the Chemists	58,369	54,747
Halfords	9,581	9,330
Boots Opticians	4,349	3,631
Do It All	5,039	4,061
Boots Healthcare International	1,952	1,779
Boots Contract Manufacturing	4,027	3,653
Boots Properties	92	88
International Retail Development	311	27
Central office	600	1,218
Total	84,320	78,534

Source: Boots 1998 Annual Report.

Exhibit 3**BOOTS BRANDS SOLD AT BOOTS THE CHEMISTS**

Brand	Description
Charles Worthington	Premium hair care, men's skin care
ACT	Skincare for teenagers
No. 7	Cosmetics and skincare
Natural Collection	Toiletries for teenage girls
Kyusu	Toiletries

Source: Boots 1998 Annual Report.

Exhibit 4

POPULATION OF JAPAN BY REGION ('000 INHABITANTS)

Region	Year			Prefectures included
	1985	1990	1995	
Hokkaido	5,679	5,644	5,692	Hokkaido
Tohoku Region	9,730	9,738	9,836	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
Kanto region (excluding Tokyo)	24,956	26,686	27,747	Ibaraki, Tochigi, Gumma, Saitama, Chiba, Kanagawa.
Tokyo	11,829	11,856	11,774	Tokyo
Chubu	20,595	21,023	21,400	Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano, Gifu, Shizuoka, Aichi.
Kinki	21,828	22,206	22,468	Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama.
Chugoku	7,749	7,746	7,775	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi.
Shikoku	4,228	4,195	4,183	Tokushima, Kagawa, Ehime, Kochi.
Kyushu	14,455	14,518	14,696	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa.
Total	121,049	123,612	125,571	

Source: "Dai-ni shō: jinkō setai: Todōfuken-betsu jinkō," Ministry of Internal Affairs and Communications: Statistic Bureau, 2011, www.stat.go.jp/data/nenkan/02.htm, accessed December 11, 2011.

Exhibit 5

PHARMACEUTICAL RETAILING IN JAPAN

Year	Employees	Store locations	Annual revenues (Billions of JPY)
1988	150,414	52,331	1,881
1991	164,989	54,916	2,412
1994	184,410	55,730	2,936
1997	198,205	56,125	3,410

Source: "Industrial research by business category for promoting investment into Japan (Retail Distribution)," Japan External Trade Organization, Tokyo, 2005, www.jetro.go.jp/invest/reference/reports/pdf/Retail_en.pdf, accessed November 23, 2011.

Exhibit 6

**GROSS MARGINS BY PRODUCT CATEGORY: JAPANESE DRUGSTORE LOCATIONS WITH
INTERIOR SALES FLOORS OF 3,200 SQUARE FEET OR LARGER**

Product Category	Percent of Total Sales	Gross Margin (%)
Medicine & Prescriptions	26.0	32.4
Home products	13.1	23.6
Beauty products including haircare and skincare	12.8	21.9
Healthcare, including medical products, healthfoods, and oral care products	11.6	28.9
Baby products	11.5	10.7
Daily consumable items	8.5	16.0
Cosmetics	7.9	24.4
Food products	7.7	11.5
Other, including toys and stationary	0.9	24.4
Total	100	21.3

Source: "Doragugusutoa meikan 1998," Kabushiki Kaisha *HCI*, Tokyo, 1998.

Exhibit 7

**TRENDS IN THE JAPANESE DRUGSTORE INDUSTRY: LOCATIONS WITH INTERIOR SALES
FLOORS OF 3,200 SQUARE FEET OR LARGER**

	Year			
	1994	1995	1996	1997
Number of firms	116	280	208	203
Number of locations	561	1,015	1,380	1,755
Total revenues (100 million yen)	2,410	5,006	7,215	8,540
Total sales floor area (million square feet)	3.05	5.39	8.09	10.27

Source: "Doragugusutoa meikan 1998," Kabushiki Kaisha *HCI*, Tokyo, 1998.

Exhibit 8

**MITSUBISHI CORPORATION SELECTED FINANCIAL INFORMATION BY SEGMENT, FOR FISCAL
YEAR ENDING MARCH 31, 1998**

Units: Millions of JPY

	Information systems and services	Fuels	Metals	Machinery	Chemicals	Living Essentials	Total
Trading transactions with outside customers	642,712	2,511,045	3,938,550	3,347,623	1,467,617	3,951,169	15,858,716
Gross Trading profit	47,399	45,112	94,261	109,130	67,660	210,221	573,783
Net Income	4,427	16,154	8,781	24,345	1,544	5,686	60,937
Segment assets	273,925	589,003	1,148,237	1,901,323	626,174	1,219,253	5,757,915

Source: Mitsubishi Corporation 1999 Annual Report.