

Retailing

Japan's Furniture King Caters to the Plebes

► **Nitori's low-price strategy let it survive the stagnant economy**

► **"People want it to be inexpensive, but it can't be cheap"**

Akio Nitori had his aha! moment during a 1972 trip to California. As a young merchant operating a handful of stores in Japan, Nitori spent a week touring **Sears** department stores and **Levitz Furniture** outlets. He marveled at the stylish designs, color coordination, and quality of their home goods—which sold for one-third the price of Japanese furnishings. "I wanted Japanese people to live as well as Americans," he says. "I couldn't afford to triple salaries for my workers, but I thought maybe I could lower prices so my customers paid one-third as much."

Doing that meant bypassing local wholesalers, a fearsome undertaking in the days when Nitori says

◀ they sometimes had links to Japan's mafia. So he met with factory owners directly in the middle of the night to avoid being seen.

Such unorthodox tactics—and a willingness to borrow ideas from retailers around the world—have made **Nitori Holdings Co.** the country's biggest furniture retailer. "People want it to be inexpensive, but it can't be cheap," Nitori says. In the 12 months through Feb. 20, Nitori Holdings did something no other public company in Japan had ever done: posted a 30th-consecutive year of increased profit to go along with its ever-expanding sales.

While Japan's deflation drove department-store industry sales down every year but one since 1998, Nitori thrived by offering bargains to the middle class, which became more price-conscious with every economic slump. "It's not stylish, but it's inexpensive, and the quality is pretty good," says Kaoru Uminuma, while shopping at a Nitori store near Tokyo.

Nitori operates 488 locations, mostly in Japan. This year the chain has opened an average of about four outlets a month, selling sofas, bookshelves, towels, dishware, and more. In its latest fiscal year, revenue increased 12 percent, to 513 billion yen (\$4.7 billion).

The company's shares have gained 21 percent since January, after more than quadrupling since the end of 2012, making Nitori the third-most valuable Japanese retailer. The runup also increased Akio Nitori's personal fortune—he's still the company's top

shareholder—to about \$3.5 billion, according to the **Bloomberg Billionaires Index**.

In the 1980s the pursuit of low prices led Nitori to use factories in Taiwan. By 2000 most of its furnishings were made in China or other low-cost Asian nations, and the company now has its own factories in Indonesia and Vietnam, assisted by a team of quality-control and testing engineers from the auto industry. "The key to it all is how much we import," Nitori says.

The company still monitors other retailers' methods. Nitori was ready in 2006, when **IKEA of Sweden AB** opened the first of its eight locations in Japan. He'd been sending hundreds of workers each year to study IKEA stores in California—armed with cameras and notebooks. "They went through every molecule of our operation," says Tommy Kullberg, president of IKEA's Japanese unit at the time. These days, Nitori flies large groups of employees to the U.S. to visit outlets of **Wal-Mart Stores Inc.** and **Target Corp.**

At 73, Akio Nitori now spends much of his time plotting expansion in countries such as China, where he's opened 11 outlets since 2014 and plans to double that number this year. "It's going to be a lot harder than he thinks," says Shaun Rein, founder of consulting company **China Market Research Group** in Shanghai, who cites IKEA's difficulty cracking the market. IKEA's stores are packed with people, but many come to take naps on showroom beds and enjoy a bit of free air

conditioning, rather than to buy. For Nitori, the challenge will be building brand cachet, Rein says: "You can't compete on price in China." —*Jason Clenfield, Masatsugu Horie, and Grace Huang*

The bottom line Japanese furniture retailer Nitori has used low prices to get 30 consecutive years of increasing profit, a public-company record there.

Nitori quality-control workers in Tokyo put some chairs through their paces

