

## Fact-Finding Study on Store Strategies during the COVID-19 Pandemic

Findings from questionnaires and interviews with commercial operators

December 18, 2020

Xymax Real Estate Institute (hereinafter, "Xymax REI") has been conducting various questionnaire surveys of commercial operators since 2016 on a continuous basis in partnership with the laboratory of Lecturer Kosei Ishida of the Department of Architecture at Waseda University (\*1).

In this 4th survey that was conducted between September and November 2020, we studied through questionnaires and interviews how commercial operators' policies on store strategies have changed from before the outbreak of the novel coronavirus (COVID-19) amid the drastic transformations of their business environments due to the pandemic. Such strategies include the opening, closing and renovation of stores, which are the core of real estate strategies. The survey covers approximately 5,600 commercial operators with annual sales of 3 billion yen or more that operate or control multiple stores in the retail, restaurant, entertainment and service sectors (\*2). Valid responses to the questionnaire were obtained from 515 companies (response rate: 9.3%) and interviews were conducted with 14 companies.

This report summarizes the details of operators' store strategies as well as their changes and future directions. We hope these survey results will assist in the formulation of effective store strategies during times "with" and "after" COVID-19.

\*1 Questionnaire surveys of commercial operators (With the laboratory of Professor Yukio Komatsu from 2016 to 2019)

1st survey: *Repair of Retail Buildings Fact-Finding Study 2016*, released on November 29, 2016

<https://www.xymax.co.jp/english/research/images/pdf/20161129.pdf>

2nd survey: *Fact-Finding Study on the Opening & Closing of Commercial Outlets 2017*, released on September 29, 2017

<https://www.xymax.co.jp/english/research/images/pdf/20170929.pdf>

3rd survey: *Fact-Finding Study on Real Estate Strategies of Commercial Outlets 2018*, released on November 29, 2018

<https://www.xymax.co.jp/english/research/images/pdf/20181129.pdf>

3rd survey: *Fact-Finding Study on Information Management of Commercial Outlets 2018*, released on November 29, 2018

[https://www.xymax.co.jp/english/research/images/pdf/20181129\\_2.pdf](https://www.xymax.co.jp/english/research/images/pdf/20181129_2.pdf)

\*2 Target respondents: See the last page of the report for the survey overview.

### Key Findings

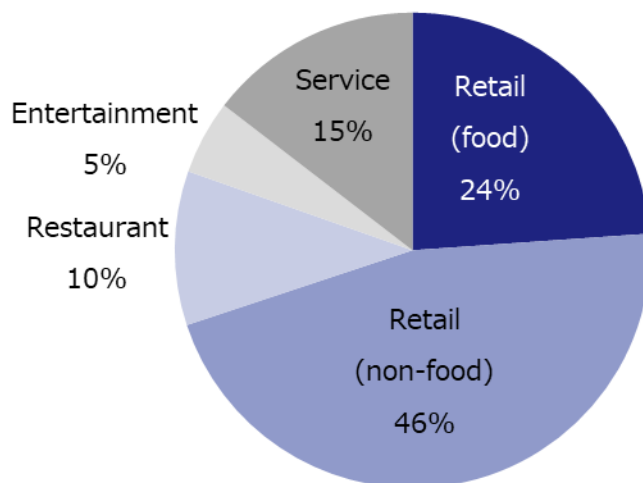
- In terms of the degree of willingness to open new stores, "Open new stores only in prime properties" had the largest percentage both before Corona (2019) and with/after Corona (from now to next year), indicating that operators are willing to take up prime properties.
- In terms of new store opening policies, "Place emphasis on existing store-opening area or property format" was the most popular both before and with/after Corona. However, a certain number of operators intend to "review the store-opening area or property format" as sales at stores located in cities and sightseeing destinations have continued to show weakness compared to stores located in the suburbs and residential areas due to the pandemic.
- The policies for unprofitable stores are mixed between industries and business formats or between operators in the same business format, depending on the degree of impact of COVID-19.

- **Stores with strong sales have not shown significant changes in policies between before and with/after Corona. Compared to unprofitable stores, more operators have set a policy of renovating their stores.**
- **In terms of business strategies, the percentage of “applies (somewhat)” was large in general, with that with/after Corona being larger than before Corona for all strategies.**
- **In terms of the impact of changes in social conditions on store strategies, “Prolonged impact of COVID-19” was the top reply, while the top changes in consumer behavior and values that were felt by operators were “The rising trend of consumption for staying at home will continue” and “Telework (WFH, etc.) will continue to expand.”**

## 1. Industry and Stores (Profile of Respondent Operators)

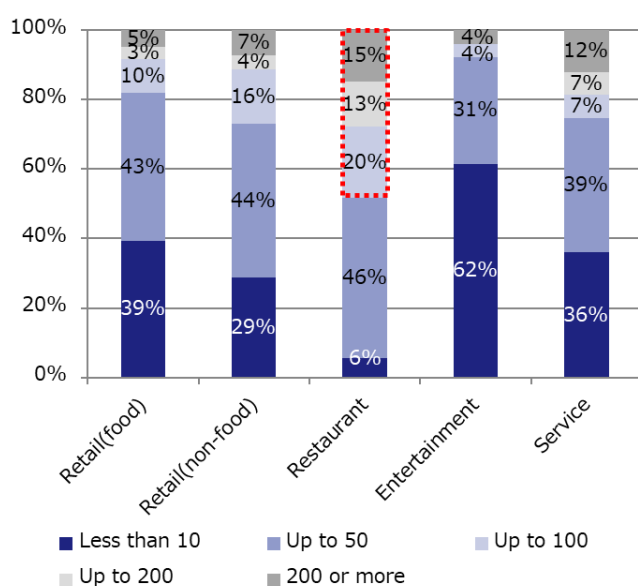
The most common industry/format of the respondents' core business was retail (food and non-food) (**Figure 1**). The percentages of the industries or business formats were roughly in line with those of all operators to whom we sent the questionnaire.

**Figure 1: Industry/Format of Core Business (Single Answer; n=515)**

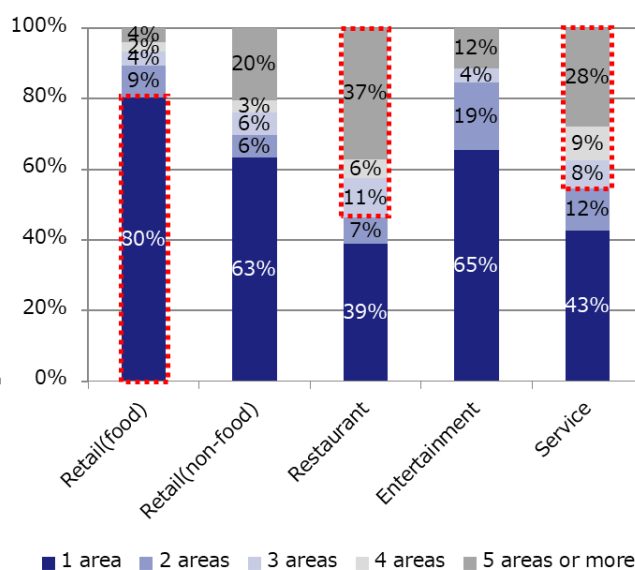


In terms of the number of stores in Japan, many operators in the restaurant industry run multiple stores of 50 or more (**Figure 2**). Asked where stores were located in terms of the eight areas of Hokkaido, Tohoku, Kanto, Tokai, Hokuriku/Koshinetsu, Kansai, Chugoku/Shikoku, and Kyushu/Okinawa, 80% of the operators in the retail (food) industry were community-based, with stores located in one area (**Figure 3**). On the contrary, a large percentage of restaurant and service operators operated over a broad area, with around 50% of such operators having stores in three areas or more.

**Figure 2: Number of Stores in Japan (Single Answer; n=514)**

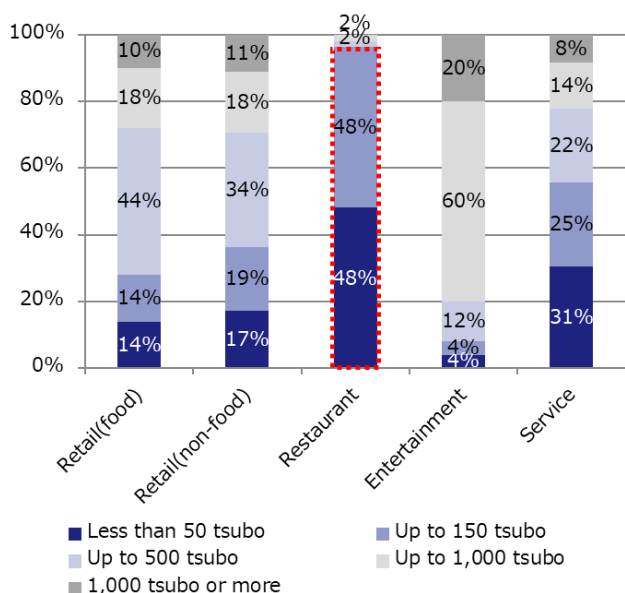


**Figure 3: Area of Stores (Multiple Answer; n=513)**

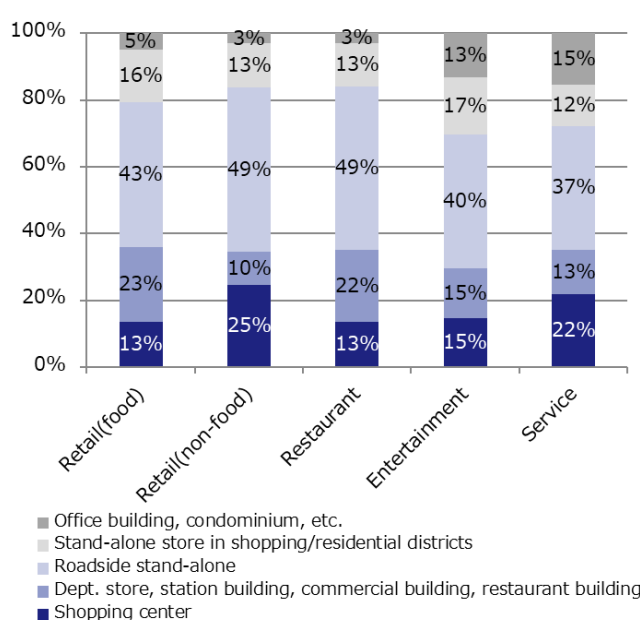


The standard store size was small among restaurant operators, at less than 150 tsubo (1 tsubo = 3.3 sqm) among more than 90% (**Figure 4**). The most common format of existing stores was the roadside stand-alone store in all industries and business formats (**Figure 5**).

**Figure 4: Standard Store Size  
(Single Answer; n=505)**



**Figure 5: Property Format  
(Multiple Answer; n=512)**



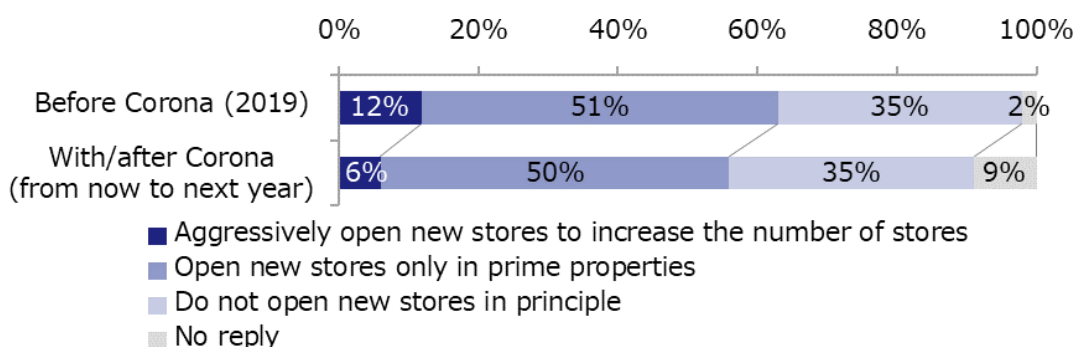
## 2. Store Strategy: Comparison between Before Corona (2019) and With/After Corona (from Now to Next Year)

We asked operators' policies on store strategies by defining 'before Corona' as 2019 and 'with/after Corona' as from now to next year. The following are the results of interviews with operators after confirming the changes in the strategies between before and with/after Corona.

### 2-1. Degree of Willingness to Open New Stores

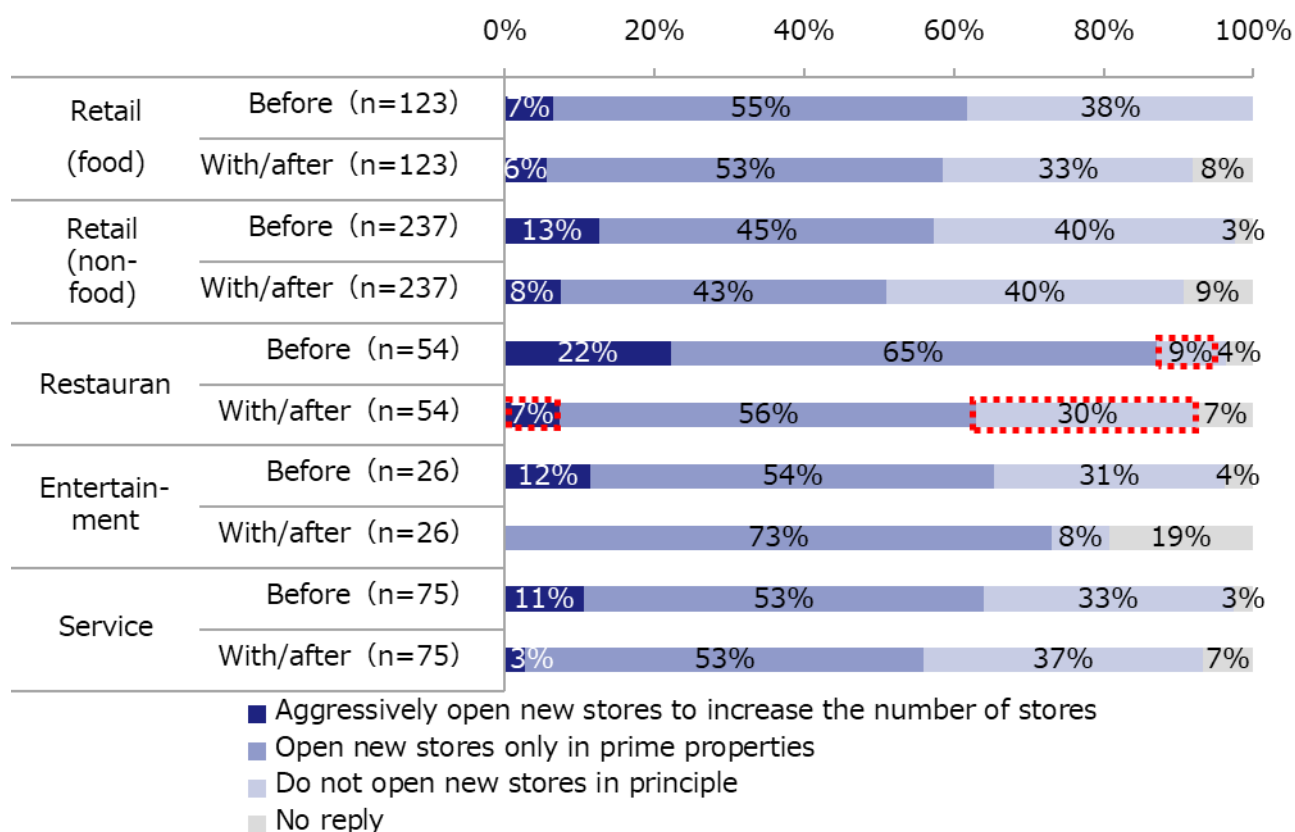
We first asked the degree of operators' willingness to open new stores before Corona and with/after Corona (**Figure 6**). Although the percentage of "Aggressively open new stores to increase the number of stores" halved from 12% to 6%, the overall percentages remained largely unchanged, with "Open new stores only in prime properties" dropping slightly from 51% to 50% and "Do not open new stores in principle" unchanged at 35%.

**Figure 6: Degree of Willingness to Open New Stores (Single Answer; n=515)**



**Figure 7** shows operators' degree of willingness to open up stores by industry and business format. This indicates that among restaurant operators, "Aggressively open new stores to increase the number of stores" decreased from 22% to 7% and "Open new stores only in prime properties" dropped from 65% to 56%, while "Do not open new stores in principle" rose sharply from 9% to 30%.

**Figure 7: Degree of Willingness to Open New Stores (By Industry/Business Format) (Single Answer)**



The most popular comment by operators, regardless of industry or business format, obtained through interviews and the comments section of the questionnaire was that many properties are expected come onto the market due to the closure of stores by other companies and that the operators intend to snatch up prime properties aggressively. This suggests that many multi-store operators have strong intentions of opening stores in prime properties even during the COVID-19 pandemic. There seems to be a trend of operators focusing on prime properties since many believe that sales and customers will not return to previous levels even after the pandemic has abated.

On the other hand, a restaurant operator who replied they will not open new stores in principle with/after Corona mentioned that they have already opened stores in areas where they should have a store and that they will focus on capital investment in existing stores for the time being. Another restaurant operator said that their store-opening and renovation plans for this term have been put on hold due to the impact of COVID-19 and that they were concerned about their situation a year from now since they cannot do anything unless their sales and profits recovered.

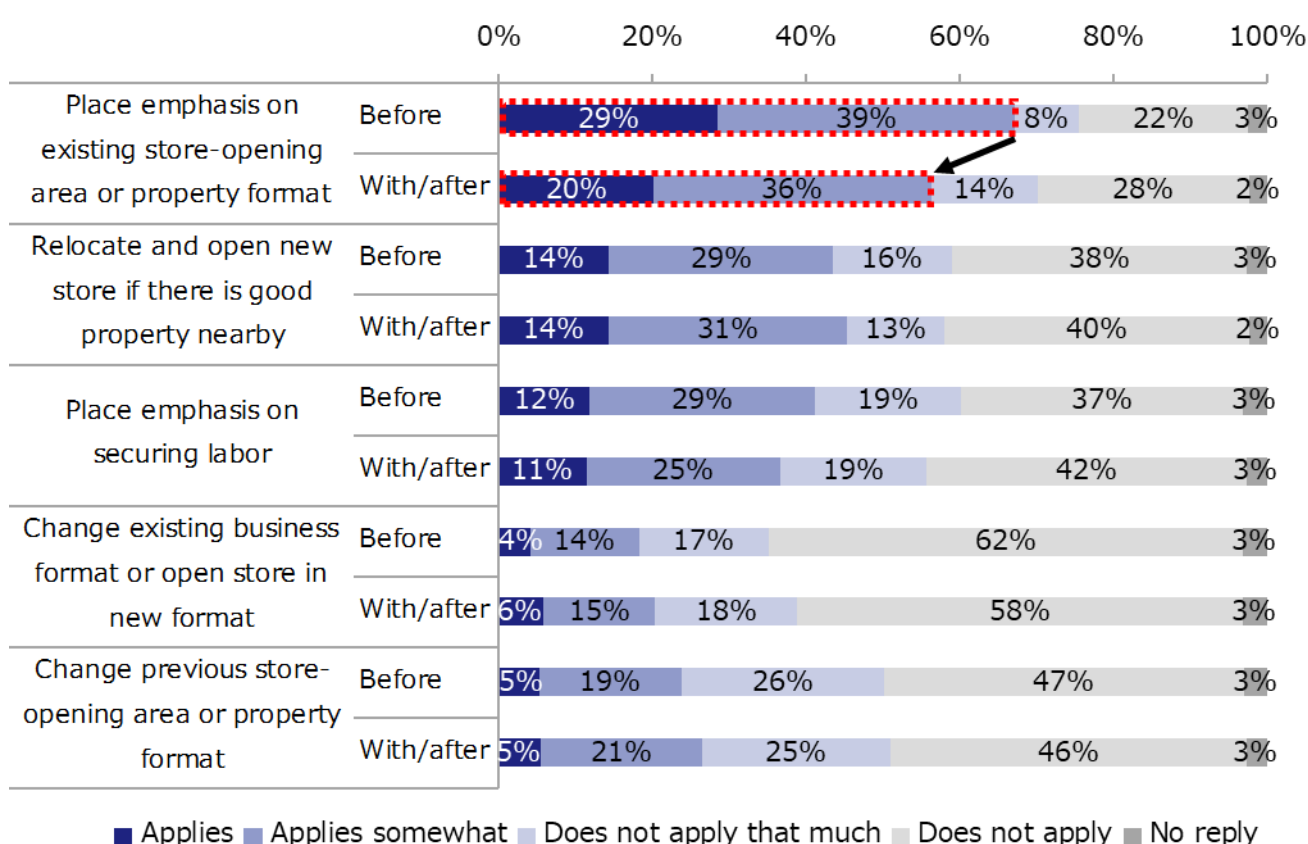
## 2-2. Policy in Store Strategies

We then classified operators' store strategies into the four groups of "new store openings," "unprofitable stores," "stores with strong sales," and "business strategy" and asked operators' policies before Corona (2019) and with/after Corona (from now to next year) concerning specific options in each group.

### <New store openings>

In terms of new store openings, the most popular policy with the largest percentage of "Applies" and "Applies somewhat" was opening stores with an emphasis on the existing store-opening area or property format for both before and with/after Corona. However, the percentage dropped more than 10 points for with/after Corona (Figure 8).

**Figure 8: Policy in Store Strategies <New Store Openings> (Single Answer; n=515)**



A trend seen across the nation in both the interviews and comments was that the recovery of sales at stores located in cities and sightseeing destinations was weak compared to stores located in the suburbs and residential areas. This seems to be significantly affected by the spread of work-from-home and other forms of telework due to work style reforms, the evaporation of inbound tourists (foreign tourists visiting Japan), and the change in the flow of people as people have refrained from traveling across regions and prefectures in Japan since the declaration of a state of emergency. As many operators have commented that they will review their dominant strategy based on consumption trends going forward, we expect such actions to accelerate in the future.

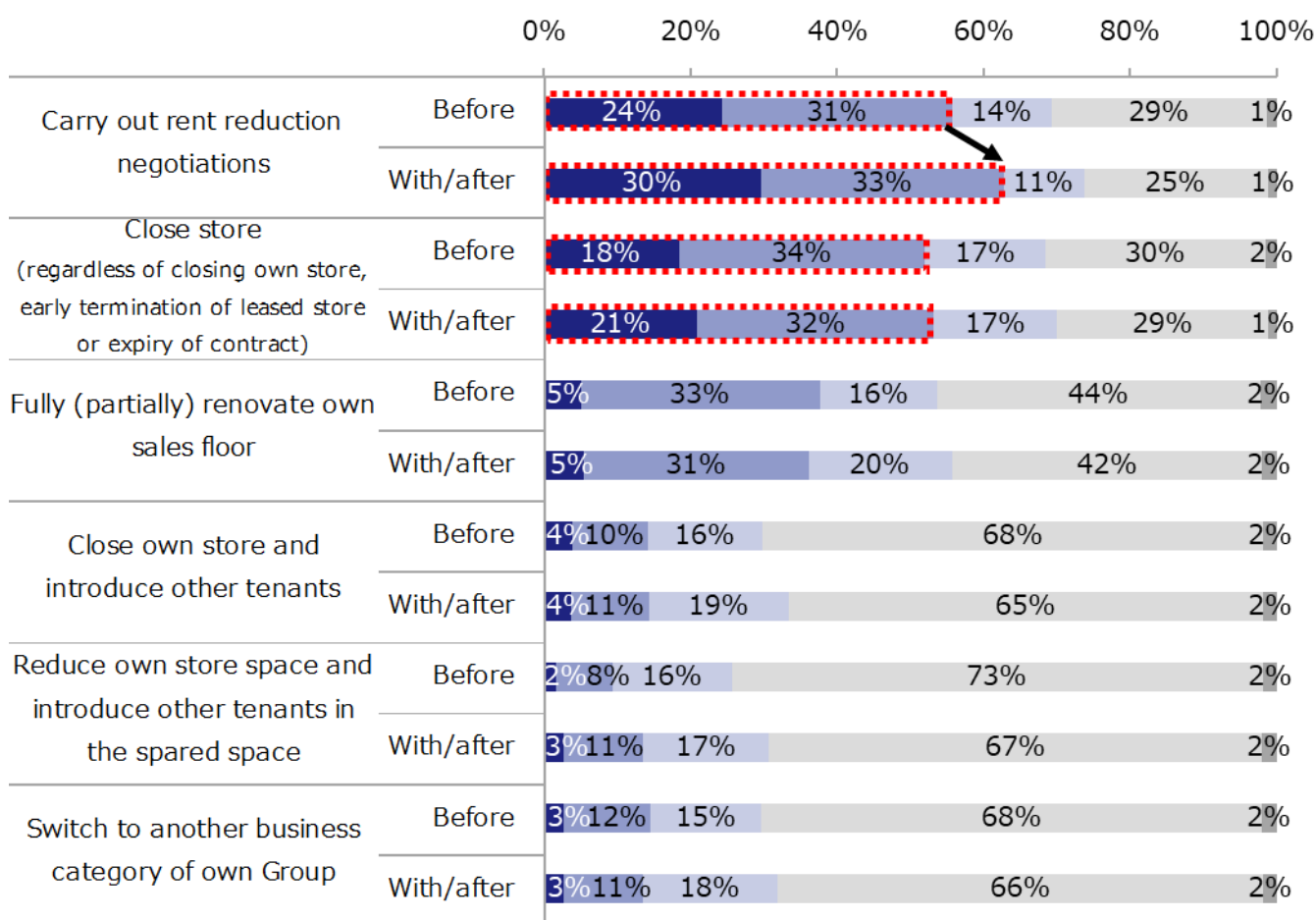
In terms of securing labor, while operators in almost all industries and business formats faced a chronic shortage of labor before Corona, many operators said that the recruitment environment had improved and that

the turnover rate was substantially lower than before. However, the common perception toward the outlook of labor seems to be that the improvement in the recruitment environment and the drop in turnover rates are one-off and that the situation will become severe as before once the pandemic has ended. Other comments included, "It is important to create an environment that ensures safety and security not only for customers but also for employees since reputational damage will be huge if someone becomes infected at the store."

### <Unprofitable stores>

In terms of policies concerning unprofitable stores, "Carry out rent reduction negotiations" was the policy that applied to operators the most, with the percentage of "Applies (somewhat)" replies increasing quite substantially from before Corona to with/after Corona (**Figure 9**). This was followed by "Close store (regardless of whether closing own store, early termination of leased store or expiry of contract)," which applied or applied somewhat to more than 50% of the operators.

**Figure 9: Policy in Store Strategies <Unprofitable Stores> (Single Answer; n=515)**



■ Applies ■ Applies somewhat ■ Does not apply that much ■ Does not apply ■ No reply

Interviews with operators revealed that a relatively large number of operators had continuously carried out rent reduction negotiations and closures of unprofitable stores from before and that the closure of stores did not increase due to COVID-19. However, a restaurant operator said that there have been (mass) store closures in the industry as a whole since the breakeven ratio of the industry was high at the 90% level and operators were not able to secure profits with the sales level under the pandemic.



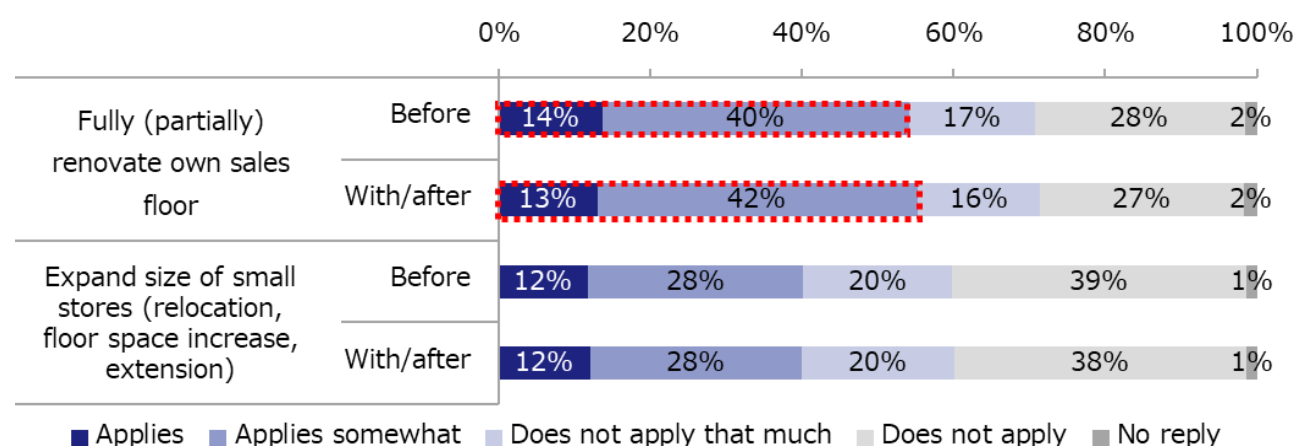
Furthermore, a retail operator who operates stores mainly in shopping centers said that they will keep the initial contract term of fixed-term leasehold contracts unchanged from before in consideration of investment recovery, but will consider shortening the contract term when they renew the contract to hedge against risk, and make decisions on closing stores due to changes in market conditions as quickly as possible and supplement with new store openings, relocations and store space expansions.

These suggest that operators' policies for unprofitable stores are mixed between industries and business formats or between operators in the same business format, depending on the degree of impact of COVID-19.

### <Stores with strong sales>

For stores with strong sales, "Fully (partially) renovate own sales floor" did not see a significant change between before Corona and after Corona, but the percentage of "Applies (somewhat)" was more than 50% for both before and after Corona (**Figure 10**). The percentage was around 20 percentage points higher than for the same policy for unprofitable stores (**Figure 9**).

**Figure 10: Policy in Store Strategies <Stores with Strong Sales> (Single Answer; n=515)**



According to interviews with operators, few operators aggressively carried out renovations, capital investments and repairs to ensure safety and security for customers as a countermeasure against COVID-19. A majority of operators said that they changed their regulations such as installing partitions, reducing the number of tables, ventilating, and restricting the number of customers to avoid the three Cs (confined spaces, crowded places, and close contact with people) (in line with industry guidelines)." It seems that the measures mentioned above are currently the mainstream.

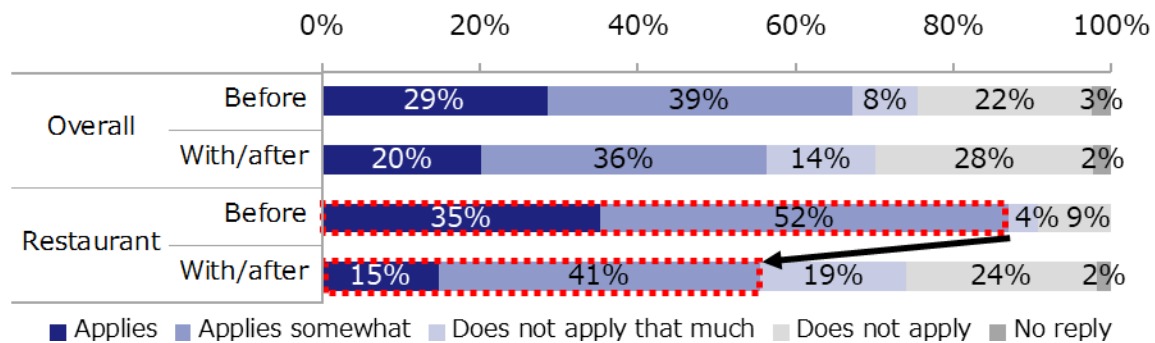
### <Reference> The restaurant industry is showing marked changes in policy

When we look at operators' store strategies by industry or business format, operators in the restaurant industry showed larger changes in the percentage of "Applies (somewhat)" replies than the national average in "Place emphasis on existing store-opening area or property format" for **new store openings**, "Carry out rent reduction negotiations" and "Close store (regardless of whether closing own store, early termination of leased store or expiry of contract)" for **unprofitable stores**, "Fully (partially) renovate own sales floor" for **stores with strong sales** (**Figure 11**).

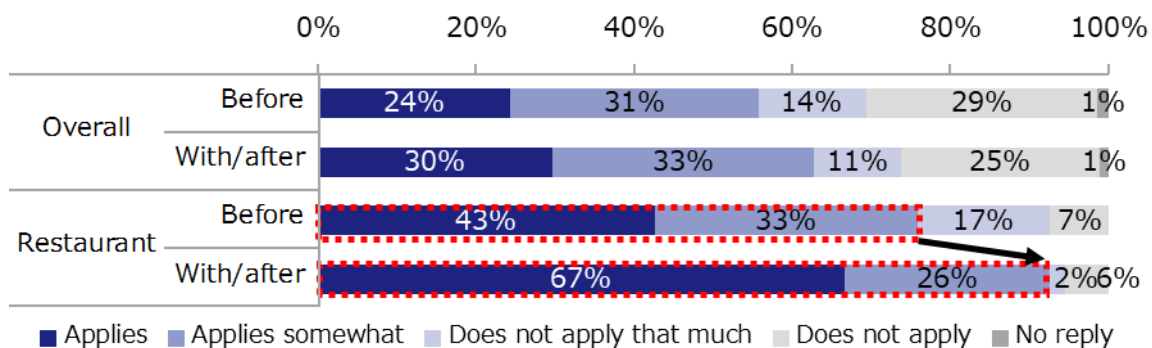


**Figure 11: Comparison between National Average and Restaurant Industry  
(Single Answer; Overall n=515; Restaurant Industry n=54)**

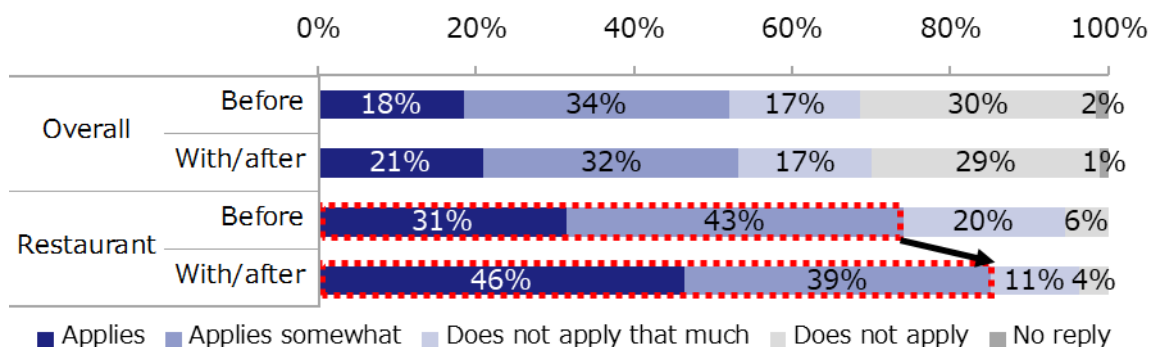
**<New Store Openings> Place Emphasis on Existing Store-Opening Area or Property Format**



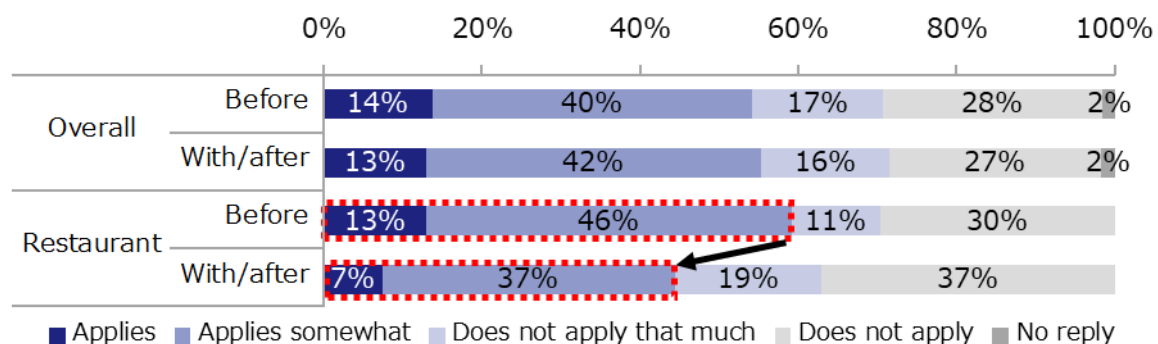
**<Unprofitable Stores> Carry Out Rent Reduction Negotiations**



**<Unprofitable Stores> Close Store (Regardless of Whether Closing Own Store, Early Termination of Leased Store or Expiry of Contract)**



**<Stores with Strong Sales> Fully (Partially) Renovate Own Sales Floor**



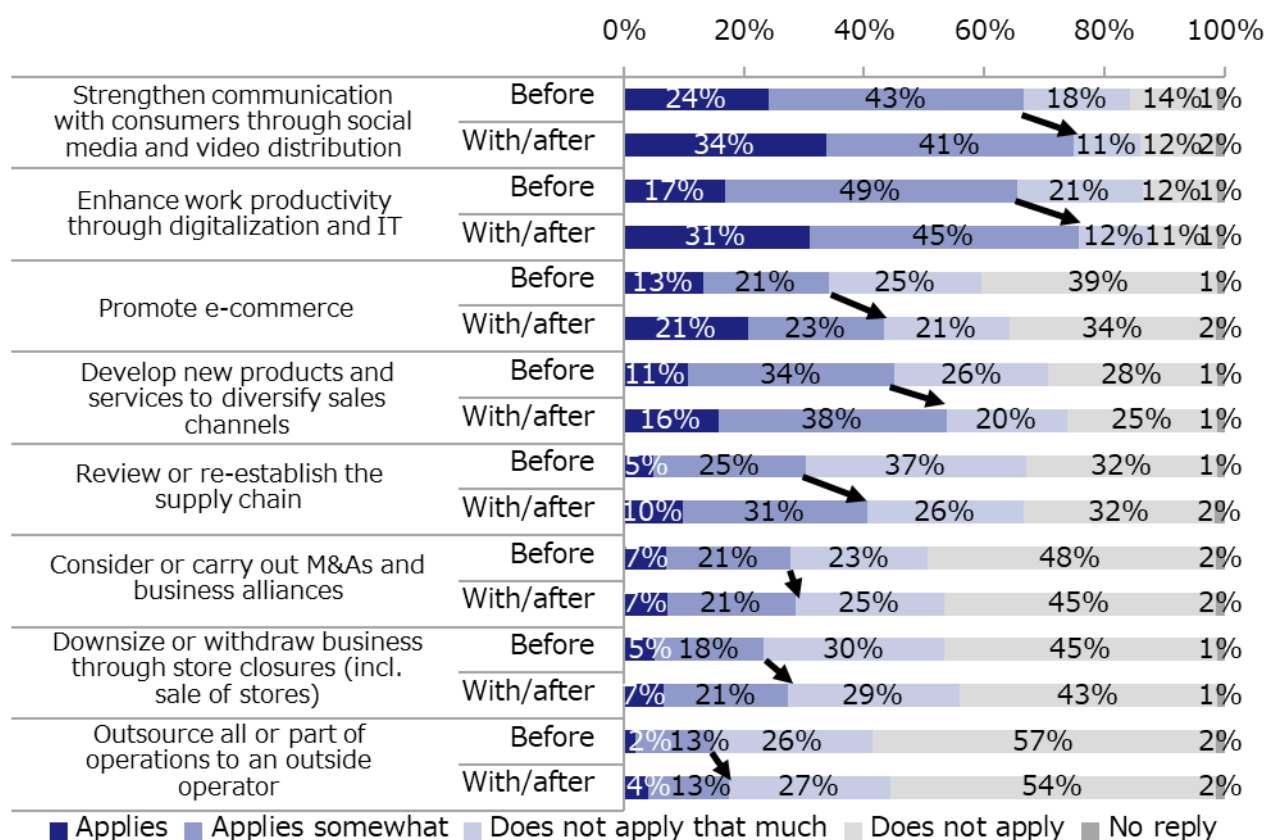
According to interviews with restaurant operators, their attitudes toward new store openings include the following: "We are refraining from opening up stores in urban areas, which require high rent, under the current sales figures and number of customers due to the pandemic," "We will review the balance of openings of stores in the suburbs and stores in cities," and "Recently we have been gathering information on reasonable properties in Tokyo, which are appearing on the market." Comments on existing unprofitable stores include "We will negotiate a rent reduction as the first step but if discussions end unsatisfactorily, we have no choice but to close the store (by applying the early termination clause)" and "We might see (mass) store closures in the near term, regardless of the size of store."

The impact of changes in consumer behavior was also significant. Comments included, "The percentage of take-aways, which used to be around 20%, rose to more than 60% at one point. An eat-in store format no longer meets the needs of consumers. It is necessary to ensure that the flow of eat-in and take-away customers within the store does not overlap. Going forward, we intend to increase openings and renovations of drive-through stores, stores specializing in take-aways and deliveries, and multi-industry stores" and "We are having difficulty generating sales especially during the night hours due to customers staying at home and an increase in consumption for staying at home. (As with bar chains) we are considering changing our store format to capture lunch needs."

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## &lt;Business strategy&gt;

In comparison to new store openings, unprofitable stores and stores with strong sales, the percentage of “Applies (somewhat)” is larger for business strategy in general, with the percentage higher with/after Corona than before Corona in all policies (**Figure 12**). This is probably because many operators think they must accelerate the policies, which they had carried out before, due to their experience of the COVID-19 pandemic.

**Figure 12: Policy in Store Strategies <Business Strategy> (Single Answer; n=515)**

Comments obtained from the interviews with operators include: “We will strengthen initiatives to encourage customers with high levels of digital literacy to use social media such as Twitter and Instagram” and “Social media help us obtain new fans of our stores as they enable us to offer not only store and product information but also real-time congestion information and to hold mini-events, as well as approach consumers through multi-faceted branding measures such as introducing our environmental conservation activities.”

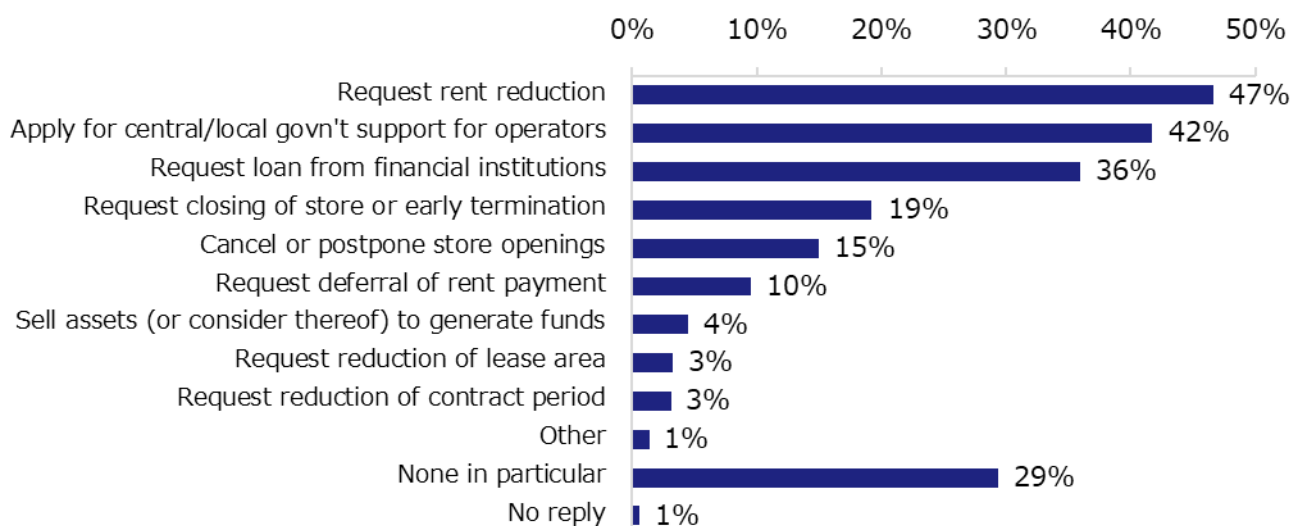
Comments from restaurant operators included, “E-commerce demand has increased due to the pandemic. In particular, we have been seeing more orders from the provinces, where we don’t have many stores. We also saw a large number of orders for online-only menus that we do not sell at our store” and “We are considering selling meal kits at our store that can be cooked easily at home.”

Furthermore, several operators commented as follows: “DX (digital transformation) will become essential in the industry as a whole, and all of the policies (in **Figure 12** above) will become important,” “Our problem is that we don’t have the personnel who can create a “grand design” for DX,” and “We are currently verifying the cost performance of DX and carrying out introduction demonstrations at each division and department. It might be necessary to ask for the advice of outside experts.”

## 2-3. Measures Implemented in Response to COVID-19

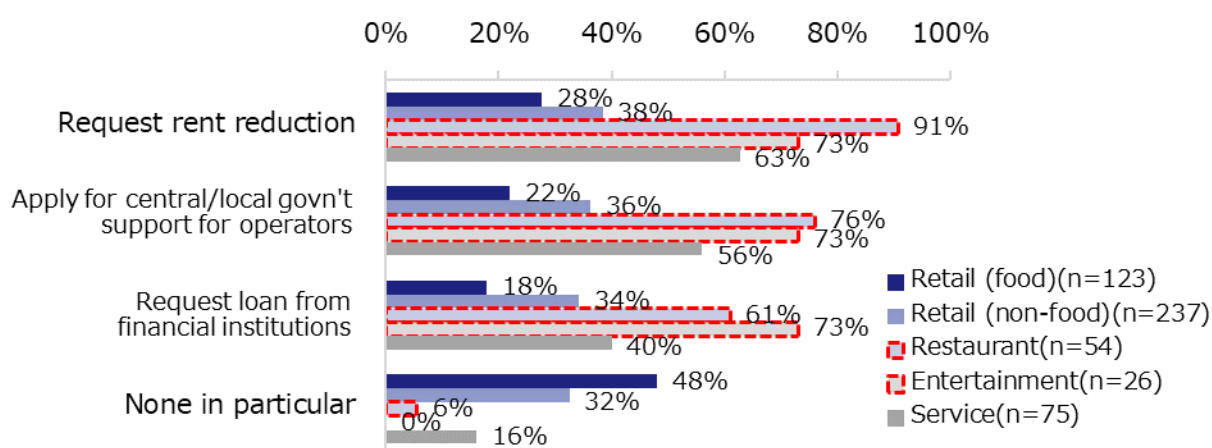
The most popular measures implemented by operators in response to the outbreak of COVID-19 were "Request rent reduction," "Apply for central/local government support for operators" and "Request loan from financial institutions," followed by "None in particular" (**Figure 13**).

**Figure 13: Measures Implemented in Response to COVID-19 (Multiple Answer; n=515)**



Looking at this by industry and business format, "rent reduction," "applying for support measures," and "requesting loan" were popular especially in the restaurant and entertainment industries, with the implementation rate exceeding 60%. "Request rent reduction" was outstandingly popular in the restaurant industry at 91%. "None in particular" was popular in the retail (food and non-food) industry, while it accounted for 6% in the restaurant industry and 0% in the entertainment industry. This suggests that industries and business formats hit significantly by the pandemic are implementing various measures (**Figure 14**).

**Figure 14: Measures Implemented in Response to COVID-19 (By Industry/Business Format) (Multiple Answer; Excerpt)**

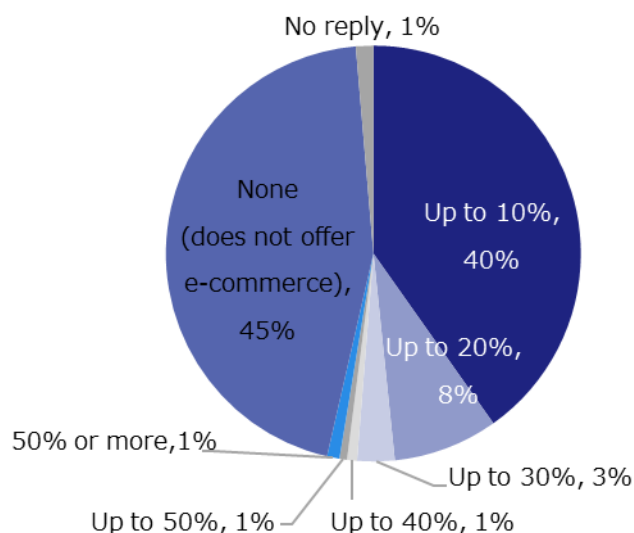


In the interviews, some operators commented on rent reductions that there was a request from the developer to extend the contract in exchange for accepting a rent reduction and that the property side was keen on preventing an increase in vacancies as much as possible. Another operator commented that the support measures by Japan's central and local governments were too weak compared to other countries.

## 2-4. E-Commerce

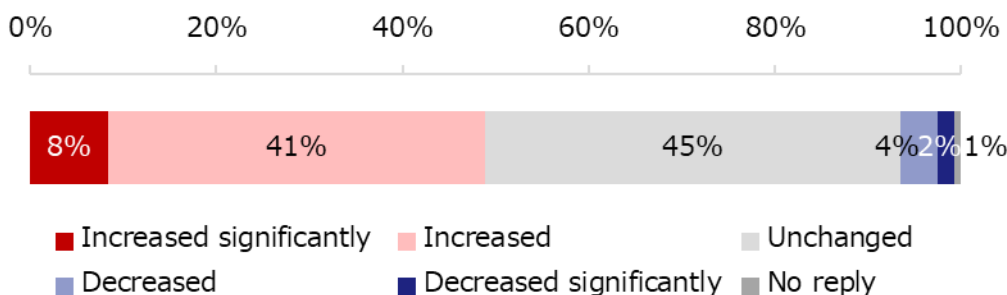
As for the current percentage of e-commerce sales, "None (does not offer e-commerce)" accounted for 45%, while the most common (40%) percentage of e-commerce sales was "Up to 10%" among operators that offered e-commerce. The sum of operators with more than 10% of e-commerce sales was only 14% (**Figure 15**).

**Figure 15: Percentage of E-Commerce Sales (Single Answer; n=515)**



We also asked operators whose e-commerce sales ratio in **Figure 15** was from "Up to 10%" to "More than 50%" about the change in e-commerce sales from the previous year. 49% said the ratio "Increased significantly" or "Increased," suggesting that e-commerce has become more widespread due to the pandemic (**Figure 16**).

**Figure 16: Year-on-year Change of E-Commerce Sales Percentage (Single Answer; n=276)**



When we asked in the interviews with operators about the future development of e-commerce, a retail (food) operator commented, "Online and physical stores are becoming more integrated, as can be seen in alliances between IT companies and food supermarkets. Perishable food has a low e-commerce ratio and was still a 'blue ocean,' but sales at online supermarkets are rising due to the pandemic. Consumer awareness is changing, and we must keep a close eye on the developments going forward."

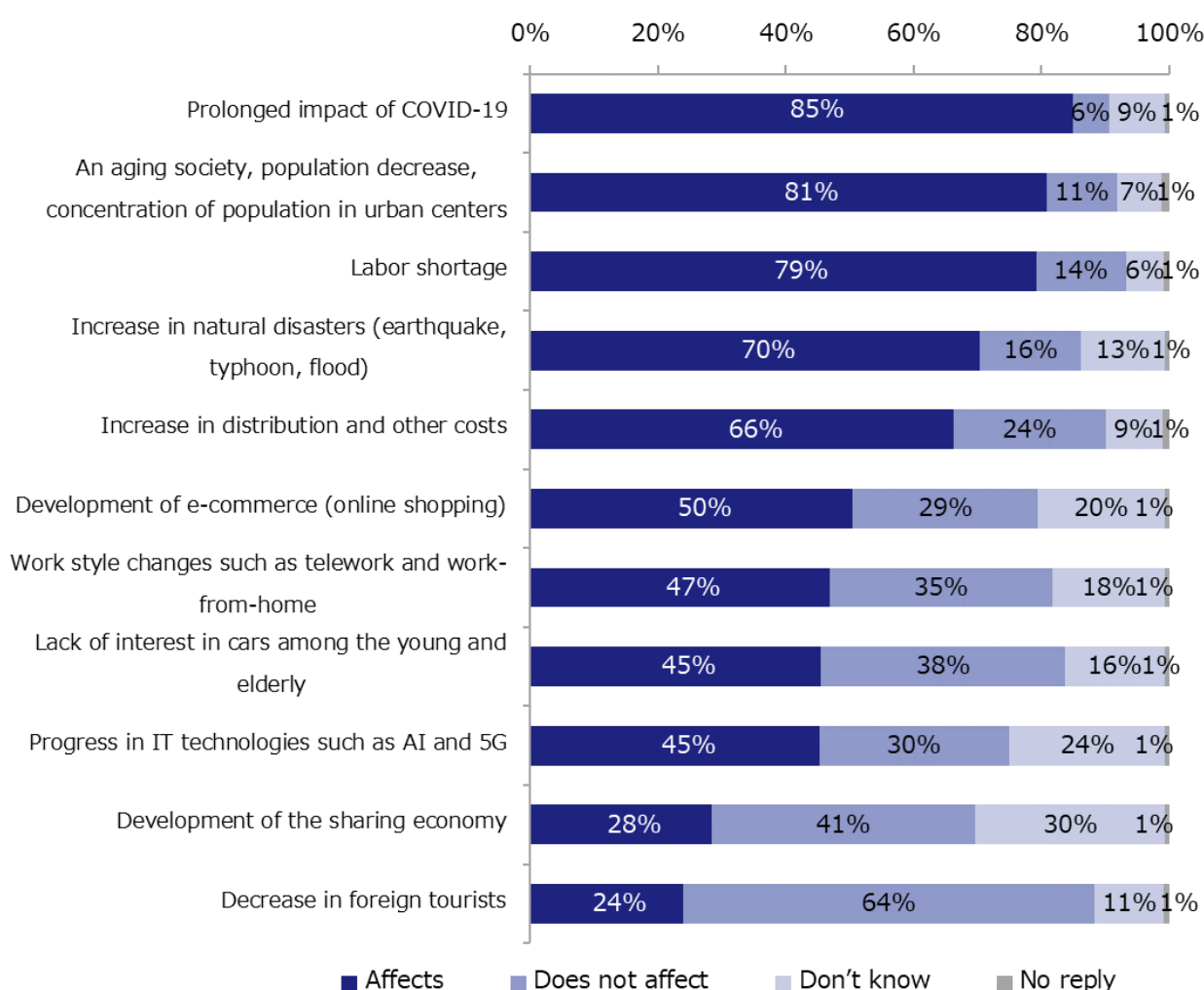
### 3. Changes in Social Conditions and in Consumer Behavior and Values

In this chapter, we examine to what degree the changes in social conditions and in consumer behavior and values affect operators' store strategies.

#### 3-1. Changes in social conditions

We asked operators about the impact the 11 social conditions we listed have on their strategies for opening, renovating and closing stores with/after Corona (from now to next year). The change that the largest percentage of operators thought has an effect was "Prolonged impact of COVID-19" (**Figure 17**). More than 80% of operators in all industries and business formats replied that this social condition has an impact.

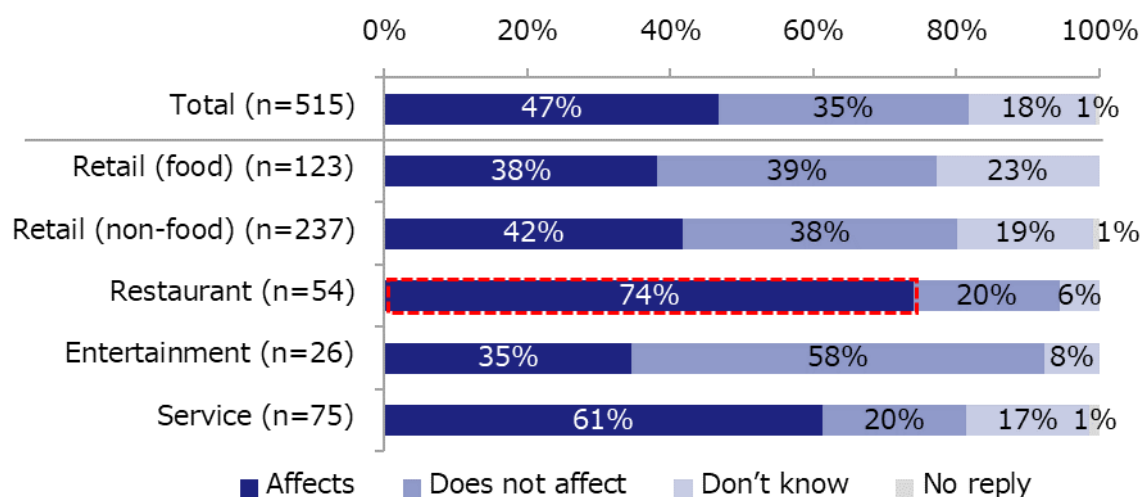
**Figure 17: Change in Social Conditions that Affects Store Strategies (Single Answer; n=515)**



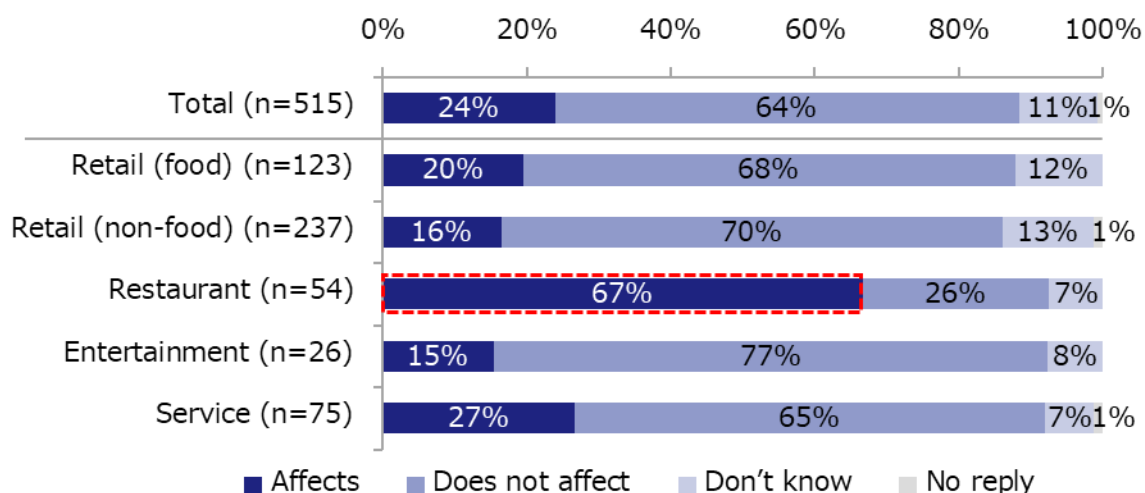
In **Figure 17**, the percentage of operators who replied that “Work style changes such as telework and work-from-home” and “Decrease in foreign tourists” affect their store strategies was 47% and 24%, respectively. However, the percentages for the same social conditions were prominently high among operators in the restaurant industry, at 74% and 67%, respectively. This indicates that the industry has been significantly affected by the change and decrease in the flow of people (**Figure 18**).

**Figure 18: Change in Social Condition that Affects Store Strategies (By Industry/Business Format) (Single Answer)**

#### Work style changes such as telework and work-from-home



#### Decrease in foreign tourists



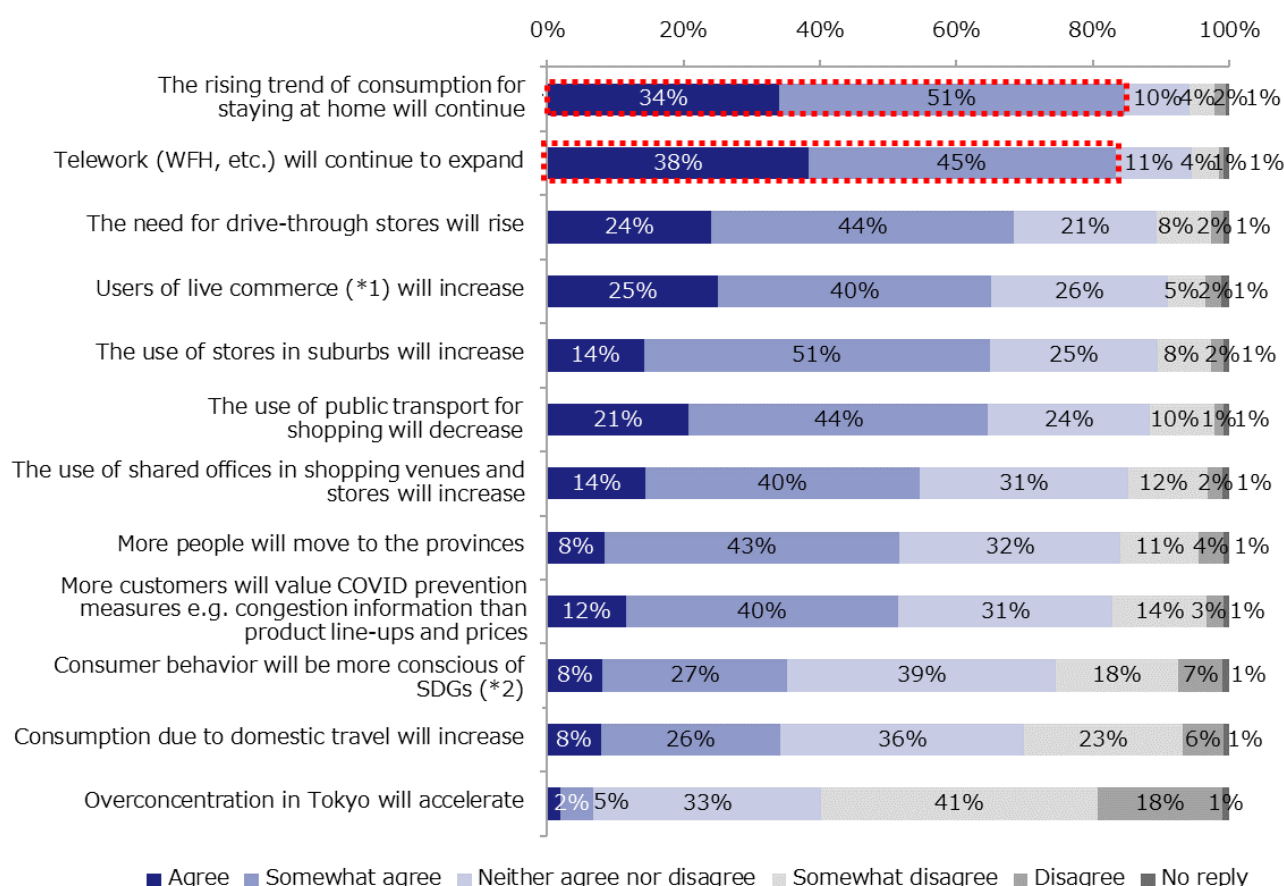
According to the interviews, the attitude toward the prolonged impact of COVID-19 among many operators was that the best they could do was to review their store strategies flexibly by capturing the changes in future developments, the market and consumer behavior. With regard to the decrease in foreign tourists, many operators seem to be thinking that the overall impact is not so large, although stores with a high ratio of sales to inbound tourists are hard hit. Several operators also commented that it would take a reasonable amount of time until inbound tourists return to Japan and that they wished for an early development of vaccines and drugs (against COVID-19).



### 3-2. Changes in Consumer Behavior and Values

We asked operators about their thoughts on the 12 changes in consumer behavior and values we listed. The sum of "Agree" and "Somewhat agree" exceeded 80% in "The rising trend of consumption for staying at home will continue" and "Telework (work-from-home, etc.) will continue to expand," which symbolize the COVID pandemic (**Figure 19**). The difference between industries or business formats was small for the above two changes.

**Figure 19: Changes in Consumer Behavior and Values (Single Answer; n=515)**



\*1: A new style of e-commerce where TV personalities and influencers post live videos and viewers purchase products while interacting through the video in real time.  
 \*2: 17 development goals on the environment, economy, peace, etc., set by the United Nations to be achieved by 2030 on a global basis.

According to the interviews, many operators do not expect to see sales and customers return to previous levels even after the pandemic has abated as consumers' lifestyles have changed. Among them, one operator said that consumption in stores and consumption for staying at home are not a trade-off but co-exist, and that a strategy of approaching both types of consumption will become more important. To be specific, an operator commented, "What is important for physical stores is how to improve added value to encourage customers to visit the store, while ensuring the safety and security of customers, and the necessary approach to consumption for staying at home is to diversify customer contact from the perspective of CX (consumer experience). To that end, the issue will be to re-establish the business model based on DX (digital transformation)."

## 4. Comments Obtained from the Interviews and Questionnaire (Excerpt)

In addition to the comments we introduced earlier, we have compiled operators' comments obtained from the interviews and the comments section of the questionnaire into different categories as follows:

### 4-1. Changes in Store Strategies

#### <New store openings>

- We cannot exclude new store openings in considering our growth strategy, but we must scrutinize the profitability from a medium/long-term perspective, instead of opening stores haphazardly. (Retail sector)
- There has been an increase in inquiries from shopping centers due to the pandemic. (Retail)
- We were forced to suspend business due to the shutdown of shopping centers, although our industry was not subject to the government's request for a shutdown. We plan to increase stand-alone stores. (Service)
- We usually open around 10 new stores each year, but our store opening plans for next year have been postponed due to the pandemic. Next year we will invest in IT, such as in accelerating smartphone payments, introducing automated cash registers and accommodating online purchases. (Retail)
- The recovery of sales has been weak at stores in urban centers. We intend to wait and see for a while, carry out "scrapping-and-building" depending on the developments and shift to opening stores in locations where sales and profits can be expected. (Retail)
- We must respond to the changes in customers' flow and taste by renovating existing stores and opening stores in a new format, since we will not be able to address the changes with our existing store-opening areas and business formats. (Restaurant)

#### <Unprofitable stores>

- The decline in consumer confidence, the shift to casual clothing and the increase in telework due to the pandemic all work against us. We will increase closures of unprofitable stores. (Retail)
- We have no other choice but to pursue a contracted equilibrium since the flow of customers away from convenience stores to food supermarkets, drugstores and home centers will not stop for a while. Our basic approach will be to suspend new store openings and increase store closures. (Retail)
- We had continued and kept stores even if they were a little unprofitable, to create jobs in the community. However, from now on we must eye the possibility of withdrawing stores more vigorously. (Entertainment)

#### <Stores with strong sales>

- With the increase in vacant floors at shopping centers, we intend to relocate or expand our store space to increase the size of our stores and increase our product line-up, keeping an eye on how rival tenants act. (Retail)
- Our challenge will be to renovate our stores and review our selling methods in view of infection prevention, so that customers can visit our stores safely and with a sense of security. (Service)
- We replaced ventilation equipment and changed our desk layout to accommodate social distancing so as to prevent the students of our private-tutoring schools from infection. (Service)

### <Business strategy>

- We hope to increase contactless customer contact such as online customer service as much as possible—not to mention expanding e-commerce—but we face issues in personnel and skills, which are hindering us from carrying out such measures immediately. (Retail)
- Although we plan to introduce e-commerce, we do not expect it to be able to make up for the loss of sales due to the pandemic. There is no decisive solution for restoring sales to pre-Corona levels. (Restaurant)
- Since the sales at our stores in urban centers of major cities across Japan have not yet recovered, we face difficulty in continuing paying expensive rents. Going forward, we will reduce our store area by around 30% and place emphasis on store efficiency by utilizing online measures. (Retail)
- Following the decline in sales as customers stay at home, we have re-acknowledged that enhancing our online sales website is an urgent issue. We will make investments in this area. By strengthening out-of-store sales and other measures, we must embrace a business structure that enables us to continue growing even if customers visiting our stores decrease. (Retail)
- With our e-commerce ratio reaching 50% due to the pandemic, we intend to strengthen this area and also open a cross-border online sales website. (Retail)
- We must establish a contactless business model, such as introducing online business meetings. We believe conventional showrooms and stores will begin to change as well. (Retail)
- We are focusing on sustainability and have developed a recycling machine for apparel, which we are installing in our stores. (Retail)
- We have introduced an AI robot that checks selling prices and best before dates. We will continue to digitalize to reduce invisible fixed costs. (Retail)
- We will increase capital investment to provide services that reduce contact opportunities, such as pick-up services at the parking lots of our stores. (Retail)
- Restructuring our supply chain has been an issue from before the pandemic. In addition to improving operations and cost performance, it is important whether the supply chain can enhance our management competitiveness or distinguish us from our competitors and lead to branding. (Entertainment)
- In terms of increasing our sales channels, we intend to reinforce the roll out of a traveling supermarket by partnering with administrative authorities, based on our policy of making the store approach community residents and not just having consumers visit our stores. (Retail)
- To maintain and expand our business scale, we must open stores more than we close. We will carry out in-depth market research to prevent spending more than can be recovered, with top priority in properties with everything included and M&As. (Entertainment)

## 4-2. Changes in Social Conditions and in Consumer Behavior and Values

### <Changes in social conditions>

- The entire society has become more dependent on digital. Furthermore, as demand from inbound tourists, which had been strong, disappeared and we have suddenly been forced to depend only on domestic consumption, we believe there will be an even greater focus on the decline and aging of the population. (Retail)
- The digital shift will progress rapidly. The consumers also demand that. Perhaps only the companies that can respond to consumer needs will be able to continue growing. (Retail)
- In terms of securing personnel, we feel that the situation is good now as the overconcentration in Tokyo

- has relaxed and large companies have suspended or reduced recruitment. (Service)
- Securing personnel remains a major managerial issue, since our sector cannot embrace digitalization rapidly and customers have been returning lately. (Entertainment)
- We think that e-commerce using smartphones will expand with the spread of 5G. In addition to the simplification of payment through fintech that uses smartphones, new initiatives such as drive-throughs and take-aways are being implemented actively. However, simplicity is essential in Japan, where the population is rapidly aging. We expect to see further evolution of systems that enable payment just by swiping a smartphone. (Retail)
- Although some say that physical stores will no longer be needed, stores where shoppers can buy food and other items on the spot will definitely be necessary. We think an upgraded version of physical stores that combines the latest technologies will emerge. Unfortunately, I think the store that is currently the closest to that kind is Amazon. (Retail)
- We have found out how immensely the stopping of the movement (traveling) of people affects the global economy. As a means of personal mobility, cars are an extremely safe transportation device in the face of viruses, and will be essential in daily life and business going forward. (Retail)
- In response to an increase in remote work due to the pandemic and the development of a sharing business, in which consumers use what they need when they need it, we believe a new store system that incorporates these trends will emerge. (Retail)
- Natural disasters occur frequently each year, with their impact becoming more prominent. We must introduce resilient operations and diversify our business. (Retail)

#### <Changes in consumer behavior and values>

- We believe it is crucial to switch to a business model that addresses the needs of the times, as consumers' lifestyles are about to undergo drastic changes due to the prolonged pandemic (e.g., staying at home, working from home, using e-commerce, using home delivery). (Retail, restaurant, entertainment, service)
- Since consumer behavior is expected to weaken due to the decrease in wages caused by the pandemic, as well as the decrease in disposable income following the consumption tax hike, it will be important to develop products that address such changes. (Retail)
- The food supermarket industry is seeing a rise in sales due to stay-at-home demand. However, we believe price competition will intensify as consumers' financial conditions worsen due to the pandemic. (Retail)
- We do not expect the number of customers and foreign tourists to return to pre-Corona levels even after the pandemic has abated. Customers' values may become polarized, which may lead to food supermarkets being weeded out based on prices, even amid fears that prices might rise despite the ailing economy, or being required high quality. (Retail)
- We feel that the raison d'être of drugstores as an infrastructure for residents of local communities has been re-acknowledged and improved in the wake of the pandemic. Drugstores' advantage of providing a one-stop service for consumers to purchase foodstuff, daily supplies, hygiene products and drugs is large. We intend to reinforce our communication with consumers through hands-on experience and consultation. (Retail)
- The value of physical stores going forward may be the provision of services that can only be provided face-to-face and not by a machine. There will be no future unless we do the basic things such as welcoming guests with a smile and serving dishes that can only be eaten at the store. (Restaurant)

- While people have been able to experience many things at home due to the spread of consumption for staying at home, many must also be feeling a sense of being constrained. Connecting with other people is unchangeable, and face-to-face conversation and communication with people will become more valuable than before. We will think about what kind of stores to create so that we can facilitate this. (Restaurant)
- Fitness clubs in the provinces have been more affected than those in the cities. Many members in their 60s to 80s have suspended or terminated their membership. Programs that can only be experienced at a certain place, such as swimming classes, and programs for children accompanied by parents have remained robust. Fitness programs for adults will increasingly go online. (Entertainment)
- Cinemas and pachinko parlors have been used in the same way since the old days. Although films can now be rented or viewed online, pachinko cannot go online under current laws. If pachinko becomes online in the future, it will change pachinko parlors dramatically. (Entertainment)
- The basic style of private-tutoring schools has traditionally been one teacher to two students. The need for receiving online tutoring at home has increased due to the pandemic. It is difficult to secure profitability with online tutoring because it will be one teacher to one student. We must pursue a tutoring style that is a hybrid of physical and online. (Service)
- Each person has their own style of traveling, and therefore we must make minor adjustments and tunings to address each customer's needs. One of the values of a travel agency is to be a good mentor for customers when they travel to an unfamiliar or inconvenient place. It is difficult to leave everything to AI. Going forward, there will be fewer physical stores due to the spread of online customer service. (Service)
- Office-casual wear will become even more casual and more emphasis will be placed on functionality, as fewer people go to work in the office. We expect sporty fashion styles to become even more popular. (Retail)
- With the criteria of choosing houses changing significantly due to telework, there has been a shift of demand from houses in urban centers or close to railway stations to large houses in the suburbs. We will identify future changes in the market and consider areas or floor plans to be marketed. (Service)
- The pandemic has brought about changes to the trends of users of car-sharing services, which are used by an unspecified large number of people. There has been a rise in subscription and lease users. (Retail)
- Fewer people are going out at night. I think the time has come to rethink the business hours of stores. (Retail)
- Meetings that seem to be aimed at gathering in Tokyo will probably continue to decrease. While it is rational, a society with less exchange between people may not generate the same kind of results that it used to. (Retail)
- Even if work can be done through the web, I think people's desire to enjoy fun experiences such as shopping, travels and concerts with their five senses and not through the web will remain unchanged. (Retail)

## 5. Summary

The questionnaire and interviews have revealed the reality of store strategies during the COVID-19 pandemic. Many commercial operators are under an unprecedented severe business environment, and operators have been engaged in the restructuring of their business portfolio, not only by opening, closing or renovating stores but also by reviewing their business strategies, in a bid for survival and growth.

A characteristic of the COVID-19 pandemic, unlike previous economic depressions, is that it has both a positive and negative impact on sales and the number of customers depending on the industry and business format as well as on the store-opening area and property format within one operator. In order to address the changes in social conditions and in consumer behavior and values and to re-establish or re-define business models, it will be necessary to accelerate initiatives in DX and CX, which had been key ideas from before the pandemic, to rethink the definition and improve the performance of physical stores. In addition to this, we believe that efforts to increase contact points with consumers will intensify through strategic partnership beyond the borders of industry or business format. The skill of such strategies might become the key determinant of the survival of operators.

Xymax REI intends to continue its research on shopping venues and stores to publish useful information.

## Survey Overview

Period	September – November 2020
Target	<p>Of retailers (food and non-food), restaurant operators, entertainment providers, and service providers<sup>*1</sup> aimed at personal consumption, 5,555 business operators with net sales of 3 billion yen or more in the latest survey year<sup>*2*3</sup></p> <p><sup>*1</sup>: Industries and business formats that operate stores in shopping centers, commercial buildings, or roadside stores, which are currently Japan's main shopping venues, based on Japan's industry classification by the Ministry of Internal Affairs and Communications</p> <p><sup>*2</sup>: Target companies of the service industry are beauty &amp; barber, travel, education, insurance, and real estate companies that operate stores in general shopping venues.</p> <p><sup>*3</sup>: Targets were extracted based on data by Tokyo Shoko Research.</p>
No. of valid responses	Questionnaire: 515 companies (response rate: 9.3%); interview: 14 companies
Geographical coverage	Nationwide
Method	Questionnaire survey by post or online, and interview
Survey contents	<p>I. Business and stores: Profile of respondent operators</p> <p>II. Store strategies: Comparison between before Corona(2019) and with/after Corona (from now to next year)</p> <p>III. Changes in social conditions and in consumer behavior and values</p> <p>IV. Comments obtained from interviews with operators and the questionnaire (excerpt)</p>

The percentage mix in the charts contained in this report are rounded off to the whole number and therefore may not add up to 100%.

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